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US ECONOMY
Indicators point to tighter money
Page 13

World News

Ceasefire fails to halt fighting in Afghanistan

Seventy-four people were reported killed in clashes between Government and rebel forces in Afghanistan, despite Kabul's announcement of a unilateral ceasefire from January 1. President Najibullah, under growing pressure as the February 15 deadline for the last Soviet troop withdrawals approaches, said he had no intention of stepping down and threatened "tooth-breaking responses" to increased attacks. Soviet First Deputy Foreign Minister Yuli Vorontsov meanwhile held talks in Tehran with Afghan rebels and Iranian officials. Background, Page 4

Armenian 'survivors'

A French radio station reported that 17 survivors had been found from the Armenian earthquake on December 7. The unconfirmed report said that they had been trapped in a cellar and had stayed alive by eating grain and drinking melted snow.

Sikh appeal rejected

India's President Ramaswamy Venkataraman rejected a plea for clemency from Kehar Singh, one of two Sikhs condemned to death for the killing of Indian Prime Minister Indira Gandhi in 1984. Page 4

Lebanon flare-up

Heavy fighting broke out in Beirut between the Syrian backed Amal and Iranian backed Hizbollah (Party of God) Shia militias, following the collapse of a Syrian-sponsored truce. Other clashes were reported in southern Lebanon. Page 4

SAS flights delayed

Flights by Scandinavian Airlines System (SAS) were delayed by up to 12 hours by increased security measures after three separate warnings that one of its aircraft would be attacked.

Premadasa sworn in

Ranasinghe Premadasa, Sri Lanka's Prime Minister for the past 11 years, was sworn in as President following his victory in December's general election. Page 4

Rakowski for Bonn

Polish Prime Minister Mieczyslaw Rakowski will visit Bonn on January 20, a year after the idea of such a trip was first mooted.

Funeral in Rangoon

Some 100,000 people filled the streets of the Burmese capital, for the first time since the army seized power in September, for the funeral of the widow of national independence hero Aung San.

Wave plant lost

An experimental plant to generate electricity from wave power was swept away from the Norwegian coast in a fierce weekend storm.

Palestinian arrests

Israeli security officers arrested nine alleged activists in the Hamas Islamic resistance movement, underlining the growing role of fundamentalist groups in the Palestinian uprising. Page 4

Ortega's peace call

Nicaraguan President Daniel Ortega said in his new year message to the nation that Nicaragua was looking for peaceful co-existence "with those that have declared themselves our enemies." Page 3

New year drownings

At least 57 people drowned when a passenger ship being towed by a naval vessel sank off Guatemala's Atlantic coast. Some 51 bodies were recovered from a pleasure boat which sank off the coast of Rio de Janeiro on New Year's Eve, with about another 30 people missing.

Swedish suicide rate

Sweden's Central Bureau of Statistics published figures refuting the widely held belief that it has the world's highest suicide rate. In 1986 there were 18.5 suicides per 100,000 inhabitants compared with 43.3 (on UN figures) in Hungary and 28.8 in neighbouring Denmark.

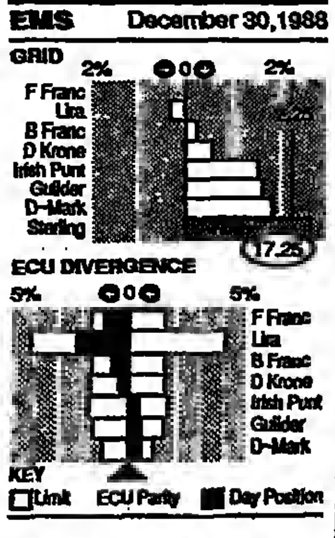
Business Summary

Forecasters see mixed trends for UK economy

FINANCIAL Times survey, bringing together forecasts for British economy from 22 groups, suggests that growth will slow this year and next, and that inflation is unlikely to fall much below 5 per cent. Government finances are expected to remain buoyant and balance of payments current account deficit to fall slightly to £13.3bn in 1989. Page 14

EUROPEAN Monetary System: Dollar strength managed to suppress D-Mark and prevent build-up of pressure on weaker members. However, trading volume was extremely low last week, preventing proper reaction to West German Bundesbank's comments that EMS members should be prepared for currency adjustments.

EMS December 30,1988



The chart shows the two constraints on European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move by more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself derived from a basket of European currencies.

SOVIET Union moved to restrict the export of many consumer items, including caviar, coffee and children's clothing, in apparent move to stem public complaints about goods shortages. Page 2

BRITISH Telecom said it would support the sale of part or all of GEC Plessey Telecommunications, UK's leading telecommunications manufacturer, to foreign telecommunications company.

NIGERIAN President Ibrahim Babangida reaffirmed commitment to structural adjustment with austerity budget including de facto currency devaluation and 43 per cent petrol price increase for private car users. Page 3

MINORCO and Consolidated Gold Fields are due to give further evidence before UK Monopolies and Mergers Commission this week as latter completes inquiry into Minorco's £2.9bn ($5.2bn) takeover bid. Page 21

ISRAELI banks lowered interest rates on large commercial loans from 40 per cent to 25 per cent as first response to economic recovery plan introduced on Sunday by Finance Minister Shimon Peres. Page 4

RELIANCE Industries of India plans to set up Rs17bn ($1.1bn) oil refinery in Gujarat, potentially marking return of private sector to oil refining after more than two decades. Page 18

AFRICA'S economic growth rate nearly doubled to 2.5 per cent last year but expansion continued to lag behind population growth of 3 per cent, according to annual review of UN Economic Commission for Africa. Page 3

SYSTEMATICA, tiny UK computer software house, has landed the European Space Agency contract to develop software for Columbus space laboratory. Page 8

FRANS Maas Beheer, Dutch transport group, acquired Belgian freight forwarder Transmarcom for undisclosed price. Page 16

STOCK exchanges were closed in London, New York and Tokyo for the new year holiday. 1988 highs and lows for most world markets appear on Page 39

Lawson warns of recession if costs are not controlled

By Peter Norman, Economics Correspondent, in London

MR NIGEL LAWSON, the British Chancellor of the Exchequer, today gives a warning that the UK could enter recession if industry fails to control costs.

However, in a new year interview with the Financial Times, Mr Lawson predicts that the economy will keep growing in 1989, although somewhat more slowly than last year. Despite having raised bank base rates in nine steps to 13 per cent from 7.5 per cent last June, the Chancellor expects that investment will continue to expand particularly strongly.

Mr Lawson makes a number of points of key concern for businesses and financial markets. He sees no reason to lower the value of the pound "for the forseeable future." Instead, he indicates a preference for linking sterling more closely to the D-Mark as the 1992 deadline for creating the single internal market in the European Commnnity approaches.

Mr Lawson also sees major benefits in running a budget surplus in present economic circumstances. The surplus – which is expected to total at least £10bn ($17.9bn) in the present 1988-89 financial year – has made last year's cuts in income tax to a 25 per cent basic rate and a 40 per cent higher rate "eminently sustainable," he says.

Mr Lawson vigourously defends his last budget, which many critics have said helped to fuel inflation and overheating in the economy. It was a "fiscal milestone," he says.

He is also unrepentant about using short-term interest rates to control inflation. His message to the many home owners now facing sharp increases in their monthly mortgage payments is that he always gave a warning that interest rates can go up as well as down.

The Chancellor believes, however, that the boom in personal borrowing is ending. The recent "explosion" in mortgage borrowing was exaggerated by the end of a era in which credit was rationed. Although Mr Lawson declines to comment about whether the next Budget will encourage savings, he appears less concerned than many commentators about the fall in personal savings in Britain.

In the interview, the Chancellor declined to answer a question about his relationship with Sir Alan Walters, who will be returning to Downing Street this year to advise the prime minister on economic policy and who has criticised Mr Lawson's handling of the economy in the past. He also refused to be drawn on whether he will be preparing to step down as Chancellor this year.

Q: You have made fighting inflation the priority of this government. Would you be prepared to let the economy go into recession to achieve this end?

A: Fighting inflation clearly requires monetary policy in particular to be sufficiently tight to secure a steady decline in the growth of nominal national income, sometimes known as money GDP. But there is no reason whatever why that should imply a recession. There will only be a recession if, within the overall context of necessary financial discipline, businesses fail to maintain an adequate control of their costs, including labour costs.

Given the dramatic improvement there has been in the quality of British management, and the healthy climate that Government policy has brought about over the past 10 years, I do not believe this will happen.

The prospect for 1989 is thus one in which the underlying rate of inflation, after continuing to edge up very slightly for a few months more, will resume its downward path, while growth will continue, albeit at a somewhat slower pace overall, but with investment continuing to expand particularly strongly.

And, remember, this follows five years or so of exceptionally strong growth, with inflation on average in low single figures throughout.

Q: If the economy does slow as you hope, how will you know when to ease the brakes, given the very poor quality of economic statistics in this country?

A: The main slowdown needed is in domestic spending, of course; and there are growing signs that this is happening. But that aside, the deterioration in the economic statistics lies primarily in the field of the national income statistics, whereas it is the financial statistics – monetary, exchange rate, prices – which are more important for the conduct of policy. That, coupled of course with judgment and "feel."

The poor quality of the

Continued on Page 6
Forecasters see slower growth, Page 14

US economy enters year in state of 'vigorous growth'

By Anatole Kaletsky in New York

THE US ECONOMY ended 1988 in a state of "vigorous growth," with new orders, exports and production all advancing at accelerating rates in December, the National Association of Purchasing Managers reports today.

The NAPM survey is the first indicator of economic trends each month. It is one of the most closely watched statistics for US investors trying to assess the chances of further monetary tightening by the Federal Reserve Board.

Today's report could intensify concern that Gross National Product is still expanding much faster than the target rate of 2½ per cent, which Mr Alan Greenspan, the board's chairman, has identified as the US economy's maximum non-inflation growth rate.

However, the figures also contained a countervailing factor. The NAPM said that inflationary pressures, as measured by corporate plans to increase prices, had continued to decline and were now at their lowest level since May 1987.

The NAPM's overall index of economic conditions increased sharply to 58.8, from 56.5 in November and 55.8 in October. An index over 50 suggests that the economy will continue to expand, while levels below 50 point to recessionary conditions.

All three of these reading were well above the average of 56.4 for the whole of 1988, suggesting that the economy may have accelerated in the fourth quarter from a 3¼ per cent growth rate which was already well above the Fed's target.

The index for new orders, which had declined in November to 58.0 rebounded to 60.1 and export orders increased at the highest rate since July.

The NAPM said that 30 per cent of its members reported higher export orders, compared with 22 per cent in November, while only 6 per cent indicated lower orders, compared with 8 per cent the previous month. The purchasers' production index also jumped to its highest level since the summer, 61.3, compared with 58.2 in November.

The NAPM employment index, which measures companies' hiring plans, was 57.5, down marginally from November's 57.9, but otherwise the strongest figure since December 1987.

In contrast to the strong production indicators, the NAPM inflation index, which shows the percentage of companies planning to raise their prices, fell for the sixth consecutive month to 68.4, from 70.3 in November. December's reading was the lowest since a 67.8 index in May, 1987.

The closely watched index of vendor deliveries, which shows how many companies are reporting delays and bottlenecks in receiving their supplies, increased to 54.0 from 52.1 in November, but was still below the levels earlier this year.

Opposition welcomes Venezuelan debt move

By Joe Mann in Caracas

VENEZUELA'S opposition parties have welcomed President Jaime Lusinchi's decision to halt principal payments on public sector debt owed to international banks – but said it should have come earlier.

The move surprised many observers, who had expected President Lusinchi's administration to leave the debt problem for the new government that will begin a five-year term on February 2.

"The measure is correct, but it is tardy," said Mr Pompeyo Marquez, head of the Movement to Socialism (MAS), the third biggest party. "He should have made the decision a long time ago when the price of oil fell." Conservative opponents of the centre-left government also said the move was belated.

Venezuela has public and private sector debt of $32bn-$33bn. Although the government has not said how much public sector debt would be affected by the moratorium, the decision probably involves close to $20bn of total government sector debt of $25bn.

Venezuela has public and private sector debt totalling about $32bn to $33bn. The government has not said how much of the public sector debt would be affected by the moratorium, but the decision probably involves close to $20bn of the government total.

Mr Hector Hurtado, Vene-

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Bonn probing company links to Libyan plant

By David Marsh in Bonn and Lionel Barber in Washington

WEST GERMAN authorities are investigating a total of five German companies believed by the US government to have helped Libya build a chemical weapons factory at Rabta following reports that have not so far come up with evidence that the allegations are true, Bonn officials said yesterday.

Mr Helmut Kohl, the West German Chancellor, was told about the US suspicions when he visited US President Ronald Reagan in November. Only one of the companies – Imhausen-Chemie, a plant engineering and pharmaceuticals concern based in Lahr in Baden-Württemberg – has been named. The company's chairman, Mr Jürgen Hippenstiel-Imhausen, yesterday denied having anything to do with chemical weapons production.

Though US officials have singled out the role of Imhausen-Chemie, Washington has indicated previously that up to a dozen West and East European and Japanese companies were involved in constructing the Rabta plant, hidden among mountains 35 miles from Libya's Mediterranean coast.

Washington maintains that the plant, which Libya denies is a chemical weapons facility, has been built by more than a dozen companies from at least half a dozen countries, with West Germany appearing to play a leading role. In the last few weeks the US has pointedly stepped up its campaign against Rabta, alleged to be the largest chemical weapons factory in the Third World.

The production potential of Rabta is described by US officials as "staggering," with some estimates reaching up to 10,000 lbs of mustard and nerve gas daily. But it has apparently yet to start production.

President Reagan refused to rule out a military attack against the facility if it entered production. Senator Robert Dole of Kansas, the Senate minority leader, has said that he would support bombing Libya if a link were established with the bomb blast which killed 259 people aboard Pan Am 103 over Scotland.

He said: "If we find the perpetrators and if we know precisely who the perpetrators are and where they are located, then I believe we should retaliate, whether it's a chemical plant or evening the score with those who have taken the lives of so many civilians."

The US and Israel share the view that Rabta may also be an effort by the Col Muammer Gadaffi, the Libyan leader, to offset Israel's capacity to make a nuclear bomb.

US officials appear to have named the company, which was cited in a report in the New York Times at the weekend, in an effort to prod West-

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Troubled Drexel increases its junk bonds market dominance

By Anatole Kaletsky in New York

DREXEL Burnham Lambert, the controversial US investment bank which last month agreed to plead guilty on several charges of securities fraud, nevertheless increased its dominance last year of the market for US junk bonds – high-yielding bonds rated below investment grade.

Meanwhile, Salomon Brothers, the blue chip firm which had long topped the list of US investment-grade corporate debt underwriters, slipped into third position in that business, behind Merrill Lynch and Goldman Sachs.

These were the main changes in the US domestic underwriters' rankings reported yesterday by IDD Information Services, the statistical arm of the Wall Street trade-magazine Investment Dealers' Digest.

While the league tables do not on their own give any indication of the profitability of the various firms' underwriting businesses, they are watched closely by Wall Street executives and the shifts in ranking could have psychological significance.

For Salomon, which has suffered numerous highly publicised defections among its top-level executives, the move down the investment grade table may come as a disappointment after seven years at the top. According to IDD, Salomon managed $14.31bn of investment-grade corporate underwritings and had a market share of 16.6 per cent. Merrill managed $18.74bn, for a market share of 21.7 per cent, while Goldman edged into second place with $14.33bn or 16.6 per cent.

For Drexel the junk bond underwriting figures will help to support the firm's frequently stated view that its key clients have remained loyal throughout the lengthy securities fraud investigation. Drexel managed $11.91bn of the speculative debt offerings, winning a market share of 42.8 per cent. In 1987 Drexel managed $11.62bn or 40 per cent of junk bond offerings.

The second biggest junk bond underwriter in 1988 was First Boston, with $3.9bn or 14.1 per cent. Third place went to Morgan Stanley with $3.13bn or 11.3 per cent.

However, some analysts believe that Drexel's position could weaken considerably now that it has admitted guilt to some of the US Attorney's charges and agreed to pay a record $650m in fines and restitutions.

The firm suffered two symbolic blows last week as a direct result of its plea-bargaining agreement. On Thursday a Boston court said that Drexel's $650m fine raised questions about its ability to finance a hostile takeover bid for Prime Computer.

On Friday the City of New York said it would temporarily suspend Drexel as co-manager of its bond offerings and would not let the firm participate in the sale of $500m worth of bonds scheduled for underwriting in February. The City added, however, that Drexel would be allowed to resume its underwriting role after the temporary suspension.

The aggregate size of both the junk bond and investment grade markets fell slightly in 1988. There were a total of $86.44bn of investment grade corporate offerings in 1988, excluding mortgage-related, asset-backed and government debt, said IDD. This was 2.6 per cent down on the $88.79bn in 1987. The market in new junk bond issues was $27.81bn, compared with $29.03bn in 1987.

● In a separate league table of merger and acquisition advisers compiled by Securities Data Corporation, Goldman Sachs was shown as the top merger adviser on Wall Street. Eurobond rankings, Page 16

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MALAYSIA'S OBSESSION

Since independence from Britain 31 years ago, Malaysia's political leaders have been obsessed with the country's potentially explosive racial mix. Dr Mahathir Mohamad, Prime Minister since 1981, is no exception Page 30

German anger over bomb claims

By Haig Simonian in Frankfurt

THE West German authorities have reacted sharply to UK press reports that the bomb which destroyed Pan Am's Flight 103 just before Christmas originated from a connecting flight in Frankfurt.

Mr Hans-Georg Fuchs, an official at the Federal Criminal Office in Wiesbaden, said "there is no sign at all so far that the bomb which blew up the Pan Am jumbo came from Frankfurt". Reports in the UK suggesting a lapse in German security were "exaggerated, if not false," he added.

Mr Thomas Pier, an official of the Hesse state government, said "all the reproaches that are circulating are based on speculation." However, he confirmed that security at Frankfurt airport had been stepped up, with more spot checks.

Meanwhile, the German magazine Bunte has suggested that not all the baggage loaded on the connecting flight from Frankfurt to London may have been checked. According to the magazine, some 27 kilos of military post and bank documents were loaded onto the flight unchecked.

Mr Fuchs confirmed that the German and UK authorities were working closely together to track down the bombers. Two officials from the Metropolitan Police have been in Germany, and one is still working with the Federal Criminal Office. "There is co-operation in any direction which might help in clearing up this business," said Mr Fuchs.

Suspicions have focused on a Frankfurt link to the bombing partly because of the arrest in late October of 14 Jordanians living in Germany and the discovery of a sizeable arms cache, including quantities of plastic explosive.

Since then 10 of the suspects have been released. While the remaining four are still being held by the German police, there is as yet "no proof at all," of any link between the attacks planned by the group and the Pan Am bomb, say the German authorities.

Local officials also argue that if, as reported in the UK, the bomb on PA103 was activated by a barometer detonater, which would be triggered once the aircraft had reached a given height, the device would already have gone off on the connecting flight rather than after departure from Heathrow.

Passengers on Pan Am flights remained subject to tight security yesterday, although apparently on a highly selective basis, with searches largely being carried out according to a passenger's nationality.

Travelling on a UK passport on a Pan Am flight from London to Frankfurt yesterday morning, my handbaggage was given just a normal pre-departure X-ray check.

By contrast, travellers of certain other nationalities on the Bombay-bound flight were subjected to much more rigorous controls, with all bags being X-rayed before check in at Heathrow's Terminal 3 and hand baggage subsequently being X-rayed and then hand-searched at the gate.

The subsequent lengthy delay when baggage and passenger numbers did not tally and nervous whispers among the cabin staff on the Pan Am jumbo is probably a telling reminder of the tension that still surrounds the airline almost two weeks after last month's crash.

France to ease curbs on immigrants

By George Graham in Paris

THE French Government is to take immediate steps to relax some of the restrictions on immigrants, following a call from President François Mitterrand for a riposte to the recent rise in racist attacks in France.

In his New Year message President Mitterrand said he wanted some of the immigration legislation introduced by Mr Charles Pasqua, Interior Minister in the last right-wing government, to be revised without delay.

"This will be our reply to the criminal acts which have recently marked a certain revival of racism," Mr Mitterrand said.

Mr Pierre Joxe, the socialist Interior Minister, quickly replied to the President's message by announcing four new decrees modifying the Pasqua legislation. The measures will make it easier for the children of immigrants or the foreign spouses of French citizens to obtain residence permits. In particular, the fact of not having the correct permit will no longer be a sufficient reason for refusing an application.

The measures, instantly condemned by the extreme right-wing National Front, were welcomed by left-wing parties but greeted with considerable suspicion by mainstream right-wing politicians.

EC considers hitting back in hormone meat war with US

By David Buchan in Brussels

EUROPEAN Community governments yesterday were pondering whether and when to initiate a second round of shots in the new trade war with the US.

In the dispute, the US has imposed punitively high duties on EC food shipments in retaliation for the Community's January 1 ban on all hormone-produced meat imports, including from the US.

The Community effectively loaded its gun for further commercial hostilities when on December 19 EC foreign ministers approved a list, drawn up by the EC Commission, of possible retaliatory measures against the US.

But the ministers decided then to consult again this month before deciding actually to press the trigger.

EC foreign ministers are due in any case to meet on regular business on January 23-24, though they could instruct their Brussels envoys to take action on the hormone issue before then.

EC retaliation would widen the transatlantic trade war, because it would affect some \$360m worth of US farm exports to Europe (compared to \$100m worth of EC agricultural produce penalised by the US so far) and it would invite US reaction.

EC officials deny any suggestion of possible Community escalation of the trade war, arguing that if the EC were to take further action, it would be merely responding to legally unjustified US retaliation against a legally justified EC health measure.

Nonetheless, the December 19 "hit list" of US agricultural exports to Europe like dried fruits, nuts, honey and canned vegetables, was clearly drawn up in the hope that its very drafting would deter the US from taking its long-promised retaliatory action. Deterrence failed at 12.01am on January 1, when Washington slapped 100 per cent duties on such products as EC hams, fruit juices and tinned tomatoes.

It will now fall mainly to Spain, as the new president of the EC Council of Ministers for the next six months, to orchestrate the 12 EC governments' response and to decide whether to pursue further retaliation, or trade diplomacy through Gatt, or both diplomacy and retaliation in a sort of two-track strategy.

In a weekend newspaper interview, Mr Francisco Fernandez Ordonez, the Spanish foreign minister, said: "I hate all wars, including commerical ones, because both sides always lose."

● The European Commission said yesterday that only on New Year's Eve had it received official word from Paris of the French government's decision to write off FFr12bn worth of Renault's debt, and therefore it would need several more days to give a studied reply.

Brussels has to decide to what extent the French government has satisfied the Commission's demand that fresh state aid to Renault be made conditional on the publicly-owned car company being subjected to the financial disciplines in normal commercial law.

Danish Prime Minister urges cut in wages

MR POUL SCHLUTER, the Danish prime minister, used his traditional televised New Year message to the nation on Sunday to urge the trade unions and employers to negotiate a wage reduction and to annul an agreed cut in the working week from 38 to 37 hours in 1989-90, Hilary Barnes reports from Copenhagen.

He said that a general wage reduction would be accompanied by a reduction in income tax rates, which would mean there would be little change in real wages.

Mr Finn Thorgrimson, the chairman of the Lands Organisation, the trade union umbrella group, called the proposal "utopian."

Mr Svend Auken, the leader of the opposition Social Democratic Party, said that the speech was disappointing. "The Prime Minister knows a wage cut hasn't a chance."

Surprise tax on profits hits Stockholm shares

PRICES on the Stockholm Bourse closed sharply lower in small volumes as a result of surprise tax proposals from Mr Kjell-Olof Feldt, the Finance Minister, Reuter reports from Stockholm, quoting dealers.

The general index closed 4.65 per cent lower, while the top 16 shares dropped 4.2 per cent. Turnover amounted to SKr202m (£18.3m).

Mr Feldt said he would levy a one-off, 15 per cent tax on companies' 1989 profits, and that tax concessions on losses made on shares held for more than two years would be abolished immediately.

Dealers said the changes appeared to be worrying smaller investors. "No major investors have sold out," one said. Some dealers said sellers had over-reacted, and that it could take several days for share dealers and investors to come to terms with what the new tax laws mean for them.

Soviet party 'slow to reform'

By Our Moscow Correspondent

A PROMINENT Soviet Communist has sharply criticised the ruling party for being too slow to reform itself.

The attack appeared in the form of en interview with Mr Leon Onikov, a senior employee in the party's central committee, pnblished yesterday in Pravda, the party's own official organ.

Mr Onikov criticised the party apparatus for departing from the democratic norms laid down by Lenin. Noting that "perestroika in the party is markedly lagging behind perestroika in society," be claimed that progress on democratising party life had been slow despite specific decisions to do so at the 19th party conference.

"As you can see," Mr Onikov noted, "the question remains so far at the same level as it was in the stagnation years," which is the now official phrase for Leonid Brezhnev's 18 year rule.

Surprisingly, Mr Onikov called on the central party to revise its formal statutes, claiming revision undertaken in 1986 had been inadequate.

"What needs to be done specifically is to work out norms for party development on the basis of Lenin's methodology," Mr Onikov said, adding those norms should "take into account radical changes in our society and achievements of modern management science."

Similar appeals have been made in the country's more reform-minded journals, bnt seldom has Pravda thrown its weight so heavily behind a critique of the party itself.

Poland changes bank rules to help competition

By Christopher Bobinski in Warsaw

NINE NEW commercial banks, carved out of tbe National Bank (NBP) went into operation in Poland at the new year under a reorganisation aimed at encouraging competition within the state banking system. It leaves the NBP as the country's central bank.

In addition legislation now going through parliament should ease the setting up of private banks as well as joint ventures with foreign banks. Already several dozen individuals have applied for permission to start their own banks.

Meanwhile ths basic bank rate has been set by the NBPat 44 per cent while the maximum interest rates the nine new banks will be allowed to offer has been put at 66 per cent.

With the Government predicting a 50 per cent inflation rate for this year the minimum interest rate on six months deposits the banks will be allowed to offer is 33 per cent rising to 66 per cent on three year deposits.

The minimum interest rate for bank loans has been set at 55 per cent by the NBP while current accounts carry a minimum interest rate of 11 per cent.

The black market dollar, which is soon to be legalised, has started the year at a rate of 3,300 zlotys or over six times as much as the official exchange rate of 501 zlotys. A year ago the dollar on the black market was worth 1,200 zlotys while its official exchange value was 307 zlotys.

The inflation rate for 1988 is now being put at 60 per cent. The beginning of the year saw Poland's new business law go into operation. Anyone wanting to go into business has now merely to register with local government offices as opposed to getting their permission.

Peru's ruling party chief calls for new debt policy

By Veronica Baruffati in Lima

THE NEW Secretary-General of Peru's ruling party, the American Popular Revolutionary Alliance (APRA), has called on the Government of President Alan Garcia to take a more "realistic" attitude to debt repayments.

President Garcia, meanwhile, has remained silent about Thursday's statement by Mr Carlos Rivas Davila, the finance minister, that Peru would intensify contacts with the World Bank, the International Monetary Fund and the Inter-American Development Bank.

The statement fuelled speculation that President Garcia, who has taken a hardline stance towards the international monetary agencies, was becoming more isolated within APRA.

Mr Luis Alva Castro, the APRA Secretary-General, told the Italian news agency ANSA that the Government must "begin to adopt a more realistic and concrete position with regard to debt payments."

Mr Alva Castro said that President Garcia's policy of devoting no more than 10 per cent of export earnings had been "a good starting-point" but lamented that "the Peruvian Government has remained in the preaching phase, causing anger in international organisations and banks. Other countries have taken advantage of more flexible alternatives and positions with their creditors," he said.

Mr Alva Castro, who was prime minister at the beginning of President Garcia's administration, described the nationalisation of Peru's banks in 1987 as "disastrous."

The Secretary-General did, however, pledge that the APRA party would continue to back the President and his Government.

● Millions of Peruvians saw the new year in by candlelight, after terrorists of the far-left Sendero Luminoso group blew up five pylons of the national electricity system early on New Year's Eve. Party-goers had to phone around to find out who had electricity. To add to the confusion, many Peruvians were shaken out of their sleep just before dawn on New Year's Day by an earth tremor measuring five on the Richter scale.

Greece withdraws special tax

By Andriana Ierodiaconou in Athens

THE GREEK Socialist Government has withdrawn a special consumer tax on a range of domestic products which was to have been applied from January 1, following strong reaction from the press and public to the expected price increases.

The new tax was to have compensated for a Dr50bn (\$338m) loss in revennes resulting from the abolition of a regulatory tax on an analogous range of imported European Community products on the first of the year.

Although a full member of the EC since 1981, Greece was allowed to impose the regulatory tax for a limited period to protect its weak manufacturing sector. The products affected inclnded foodstuffs, alcoholic drinks, clothing, ceramic tiles, electrical and electronic equipment, heavy machinery and metal raw materials.

Italy's unions widen campaign

By John Wyles in Rome

AN INCREASINGLY strident trade union campaign against Italy's Christian Democrat-led government has widened to include complaints that tbe Bagnoli steelworks in Naples bave been "sold-out" during the recent steel industry restrucrturing agreement between Italy ana its European Community partners.

In a rush of political blood which has taken some observers by surprise, the three main Italian union confederations have imposed no seasonal limit on their ill-will and are even threatening to discuss the calling of a general strike later in the month.

The immediate focus of their complaints is the Government's failure to adjust 1989 tax rates to allow for fiscal drag. Since much of the running is being made by Socialist union leaders, there is a strong suspicion that Mr Bettino Craxi, the Socialist Party leader, wants to put a bit of heat on Mr Ciriaco De Mita, the Christian Democrat prime minister and leader in the run-up to his party's conference next month.

For similar reasons, Mr Carlo Fracanzani, the Christian Democrat Minister for Public Investments, now finds himself nursing painful flesh wounds after having been regarded as a conquering hero in the immediate after-math of the December 13 meeting of EC Industry Ministers in Brussels.

The unions, opposition parties and some newspapers are complaining bitterly that Mr Fracanzani did not make it clear that the closure of the hot metal area in Bagnoli, with the loss of about 3,000 jobs, was the Community's actual price for allowing a fresh capital injection of L5,100bn (\$3.9bn).

They have forgotten that the closure of this area by June 30 of this year was part of the Government's own restructuring plan.

On current trends, it could be that the market would justify keeping this part of Bagnoli open. But the EC decision will clearly close it, hastening in the process, say the unions, the closure of the entire plant because of the uneconomic costs of rolling steel imported in from other Italian plants.

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Austerity budget unveiled for Nigerians

By Michael Holman, Africa Editor

PRESIDENT Ibrahim Babangida, Nigeria's military leader, reaffirmed his Government's commitment to the country's structural adjustment programme with an austerity budget which envisages a de facto devaluation of the Naira and a 43 per cent petrol price increase for private car users.

The key measure in the budget, unveiled by the President in a New Year broadcast, is the decision to end the two-tier foreign exchange system, in effect since 1986. Under the system the Central Bank held fortnightly auctions of foreign currency, funded mainly by oil earnings. In addition to this official rate, determined largely by the level of bids from commercial banks, was a second rate. This has been based on the sale of other foreign exchange receipts, including remittances from Nigerians living abroad.

As oil earnings fell and the amount of foreign exchange made available for the auctions by the Central Bank dropped, the gap between the two tiers increased. In recent weeks the former set the US dollar at 5.3 Naira, and the latter at just below 9 Naira.

The Government intends to merge the two, said President Babangida, and the new rate will "primarily reflect the basic underlying forces of supply and demand for foreign exchange".

Bankers in Lagos said that the Central Bank had begun testing a daily auction system, and the merger could take place this week. The new rate will depend on the market, but bankers expected the Naira to weaken.

The President also announced plans to allow privately run foreign exchange bureaux around the country.

The bndget is seen as reflecting the outcome of year long negotiations with the International Monetary Fund which ended last month when the Fund endorsed the Government's economic programme for 1989.

President Babangida said that the structural adjustment programme which got under way in mid-1986 with the backing of the IMF and World Bank, had been an extremely painful process. But the fall in prices for oil, Nigeria's main export, meant that there could be no return to "the old profligate ways".

Oil earnings, which peaked at $26bn, were likely to fall to $4.2bn in 1989, assuming a price of $14 a barrel and production at the quota of 1.355m barrels a day allocated to Nigeria by Opec, he said.

The decision to increase petrol prices for private car owners by 43 per cent is an attempt to reduce the snbsidy on domestic fuel prices.

Ortega calls for peaceful coexistence in 1989

By Tim Coone in Managua

MR DANIEL ORTEGA, the Nicaraguan President, said that Nicaragua is looking for peaceful co-existence "with those that have declared themselves our enemies" in a new year's message to the nation.

He said that Nicaragua was preparing the ground for negotiations with the Bush Administration in the US, but added "the threat [of military intervention] does not disappear with President Reagan."

Efforts will be made this year to cut the defence and interior ministry budgets by 29 per cent and 40 per cent respectively to ease the inflationary pressure in the economy, but President Ortega added that defence would continue to be a top priority until a definitive peace agreement could be reached.

The official inflation figure for 1988 was recently given at 20,742 per cent, although independent estimates put the figure between 40,000 and 50,000 per cent, one of the highest rates in the world.

President Ortega said that Nicaragua was waiting for the Bush Administration to clarify its Central America policy, before Nicaragua presents its own proposals on renewed peace efforts in the region. He emphasised, however, that US security concerns would be taken seriously and that regional arms balance agreements were negotiable.

He also said that at the upcoming Central American presidential summit in two weeks' time, Nicaragua will be renewing proposals for a complete removal of all foreign military personnel from Central America, for the establishment of border verification commissions to prevent cross-border insurgencies and for international human rights organisations to be directly involved in monitoring human rights progress in the region.

He added that Nicaragua is also prepared toaccept a UN-sponsored refugee repatriation programme to permit the return to Nicaragua of any of the US-backed contra rebels who wish to return.

"The revolution is invincible and those that have declared themselves our enemies must learn to live in co-existence with us," he said.

The commonplace of massacre in Colombia

Sarita Kendall reports on random killings as a variety of groups resort to violence

IN SPITE of peace programmes, a strong economy and a record year for cocaine confiscation, Colombian violence became more widespread and more deeply tangled during 1988.

There were over 60 mass killings involving five or more people; 353 members of the police and the military died in armed confrontations, as well as 458 left-wing guerrillas. More than 130 people connected with the leftist Patriotic Union party were murdered. These figures are collated from newspaper reports by a Bogota research centre.

Last year, a government-sponsored study by a group of "violentologists" described the complexity of violence in Colombia: this year a geography of massacres would be appropriate. But of all the mass killings carried out in the Llanos, Urba, the north-western region of Antioquia and other departments, the most horrifying has been the Segovia massacre: not only for the 43 left dead and dozens more wounded, but because so mnch shooting seems to have been random, and because nobody is in jail.

Segovia is a small town north-east of the city of Medellin in the heart of Colombia's main gold-mining region. Soon after dark on Friday November 11, three jeeps with no lights and no number plates carrying at least a dozen gunmen drove in past the Bombona army base. According to witnesses, army units usually patrolled the area and set up road blocks at night – but not that night.

The gunmen were in Segovia for about 50 minutes. The Attorney-General's report says: "They searched out known political leaders of to the Patriotic Union, killing them in their homes;" and, in order to "make an example" of an area with left-wing tendencies, they fired, apparently indiscriminately, at people in the main square and on the streets. By 8pm the town was strewn with dead and wounded and the executioners had escaped without anyone trying to stop them.

Eight people were killed in the Jkay Bar, only 100 metres from the police post. The police did nothing – except watch one of the gunmen's jeeps drive past. The Attorney-General's report describes the behaviour of the police and of the army as "incomprehensible", and accuses both of negligence. Despite the anguish and insecurity in the region, and the constant threats against the people of Segovia, local police and army commanders took no action to protect the town, says the report.

Most now agree that the massacre was the work of right-wing paramilitary. Although guerrilla fronts belonging to the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) operate in the area, there was no pamphleteering and no attack on the authorities. Also, the Attorney-General's report implies the complicity of the local military. Two weeks before the massacre army and police units intimidated the town with a simulated takeover, and graffiti such as "Segovia we will pacify you MRN" appeared on the walls.

The MRN (death to revolutionaries in north-east Antioquia) group has repeatedly threatened to kill mayors and other UP activists. The UP mayor-elect of one nearby town was gunned down even before taking office. Yet an MRN communique denied responsibility for the "genocide" instead accusing the guerrillas and promising to "annihilate" them. Indeed, the UP mayor herself at first laid the blame on guerrillas, though she soon changed her mind.

Another version pointed to drug traffickers, claiming that they wanted to clean up the area before taking over gold production. Similar tactics have been used by traffickers in the coca-growing region. A journalist who linked a self-defence-cum-drug group to the massacre received a death threat two days later.

Colombians were appalled by newscasts showing pools of blood covering the pavement all along one side of the square and hysterically mourning survivors at the mass funerals. A Bogota newspaper columnist wrote: "With Segovia we have touched bottom. But how many times has this been said? Which is the drop which will overflow the cup?"

If Segovia has already faded to become just one more of a series of massacres, a bomb attack on November 22 on the Minister of Defence produced a significant change of direction. An uncharacteristically tough President Virgilio Barco immediately announced anti-terrorist measures which included life imprisonment, amnesties for killers who inform on accomplices, and more equipment for the armed forces. Only three weeks earlier, the President had forced the resignation of his previous Defence Minister for demanding all-out war on the guerrilla movement.

But for most, increasing violence heightens the need for stronger peace initiative. In a recent survey by the magazine, Semana, 80 per cent of respondents said the Government should talk with the guerrillas rather than fight them. But while some guerrilla fronts call for peace, others continue to bomb, kidnap and ambush. The Government is apparently taking peace overtures from the M-19 group seriously; but says that for other groups conciliatory words are not enough and have to be matched by a genuine willingness to abide by a ceasefire.

General Manuel Jaime Guerrero Paz, the new Minister of Defence, (the surnames translate as "warrior peace") is an experienced troop commander who speaks out against subversion and terrorism – but also against paramilitary groups and organised crime. The President said recently that special anti-paramilitary commando units are to start operating. At the same time, the army commander announced that the "subversion problem" would soon be over.

Amid these confused messages of peace and war, Colombians surveyed by Semana showed less optimism. Seventy per cent said they believed their children would live in a "worse" Colombia.

Pakistanis give mixed response to accords with India

PAKISTANIS are giving a mixed response to the signing of their country's first agreements with India since 1972, writes Christina Lamb in Islamabad.

Three accords, one of which bars each country from attacking the other's nuclear installations, were signed in Islamabad when Mr Rajiv Gandhi paid the first visit to Pakistan by an Indian prime minister in nearly three decades.

Most people generally welcomed the accords as an end to the mutual distrust between the two countries.

Opposition leaders, however, linked renewed violence in the country's largest city of Karachi – during which 20 people died and troops had to be called in – with a public perception that the new government had "sold out to the Indians."

Miss Benazir Bhutto, Pakistan's new Prime Minister, described the agreements as "symbolic," and rejected criticism that she was "paving the way for Indian hegemony in the region."

Neither country has publicly admitted to possessing a nuclear bomb, though they have now agreed to inform each other about of the position of their nuclear installations and any change.

The other two agreements relate to avoiding double taxation on mutual trade and promotion of cultural exchanges.

Zambian plan aims for 3% growth rate

PRESIDENT Kenneth Kaunda of Zambia has outlined the country's fourth National Development Plan aimed at reversing his once wealthy country's steep economic decline, Reuter reports from Lusaka.

Mr Kaunda, who jettisoned an International Monetary Fund recovery plan in May 1986, is trying to win IMF approval for his go-it-alone reforms. The five-year plan will aim at 3 per cent economic growth, a reduction in population growth from the present 3.6 per cent and cutting the budget deficit to less than 2 per cent of gross domestic product.

The Government on Sunday postponed a three-fold increase in the price of Zambia's main staple, maize meal, to enable more people to register for coupons which will allow families to continue buying it at subsidised prices.

● Britain has offered to write off development loans to Zambia if the IMF accepts the country's economic recovery programme, the Times of Zambia reported on Monday.

Sudanese rebel leader sees poor peace prospects

By Our Foreign Staff

MR JOHN GARANG, leader of Sudan's rebel movement, has warned that prospects for a resolution in 1989 of the country's civil war appears "bleak".

Speaking in a New Year broadcast Mr Garang, head of the Sudan People's Liberation Army, said that the Government had missed the opportunity to end the five-year conflict when it failed to ratify a peace formula he negotiated in December with the Democratic Unionist Party. The DUP last week quit Sudan's governing coalition led by Mr Sadeq al-Mahdi, the Prime Minister and leader of the Umma Party.

"I had hoped 1989 would be a year of peace, but prospects appear bleak," said Mr Garang. The formula envisaged a ceasefire in exchange for a freeze on the imposition of Islamic Sharia law, the convening of a constitutional conference, and the abrogation of foreign military ties – taken as a reference to Sudan's links with Egypt and Libya.

UN-Namibia talks

FURTHER efforts to resolve a dispute over the size and cost of the planned UN monitoring force in Namibia during the its transition to independence are expected this week. The five permanent members of the Security Council are seeking to reduce the proposed 7,500-strong military contingent, supported by up to 2,000 civilians and police, which will cost more than $600m.

Africans poorer as growth quickens

AFRICA'S economic growth rate nearly doubled last year but Africans grew poorer, a trend that is likely to continue in 1989, according to the UN Economic Commission for Africa (ECA), Reuter reports from Addis Ababa.

The continent's gross domestic product rose by an estimated 2.5 per cent in 1988, up from 1.3 per cent in 1987. That expansion lagged behind the 1988 population increase of 3 per cent and economic growth of a further 2.5 per cent in 1989 would also trail the population rise, the commission said in its annual review of the African economy, issued yesterday.

Mr Adebayo Adedji, ECA executive secretary, said Africa's external debt rose to $230bn at the end of the year from $218bn at the end of 1987 while prices for its main exports slumped, meaning less foreign exchange was available to repay that debt.

The commission estimated that Africa's exports fell 2 per cent in 1988 to $50.3bn from $51.4bn in 1987. Imports were little changed at $60.4bn.

"An increasing number of countries are merely accumulating arrears. . . most of the existing debt rescheduling formulae have had the effect of merely deferring the debt service problem into an uncertain future," Mr Adedji said.

"While African countries have taken. . . political risks in embarking on socially painful adjustment programmes and policies, the expected inflow of new capital to sustain the adjustment and recovery process has, more often than not, not materialised."

OVERSEAS NEWS

Israel arrests nine alleged members of Islamic resistance

By Eric Silver in Jerusalem

ISRAELI security men yesterday arrested nine Palestinian refugees alleged to be active in the Hamas Islamic resistance movement. Two of their houses in the Balata camp, near the West Bank town of Nablus, were demolished.

These measures reflect the increasing role played in the intifada uprising by Moslem fundamentalists, whose influence has spread from the Gaza Strip into the West Bank. Hamas enforced a general strike on Saturday, one day ahead of the mainstream nationalists' commemoration of "Fatah Day," the 24th anniversary of the guerrilla organisation's first operation.

An army spokesman said that the nine arrested yesterday were suspected of taking part in attacks against Israeli targets last autumn. These included throwing petrol bombs at a military patrol and a civilian bus. They were also alleged to have taken part in violent demonstrations.

Israel expelled 13 Palestinian activists across the Lebanese border on Sunday after they had exhausted the judicial appeal procedures. This brought the total deported since the start of the intifada 13 months ago to 49. Two others, who had agreed to leave voluntarily in return for a promise to let them return after five years, were reported yesterday to have changed their minds.

If they insist on revoking the bargain, they are expected to be expelled immediately. Sixty Arab and Jewish lawyers who frequently defend Palestinians charged with security offences announced yesterday that they were boycotting the military courts.

They complained that they could no longer serve their clients, who were regularly remanded in custody for three months before they were brought to trial.

● The Netherlands will make its first official contact with the Palestine Liberation Organisation in Tunis next week, a spokesman for the Netherlands embassy said yesterday, Reuter reports from Tunis.

Mr Henry Wijnaendts, director of political affairs at the foreign ministry, and Mr Robert Serry, head of the ministry's Middle East office, will arrive in Tunis on Sunday to meet PLO leaders, he said.

Loan rates cut in response to Peres plan

By Eric Silver

ISRAELI banks yesterday lowered interest rates on large commercial loans from 40 per cent to 25 per cent as a first response to the economic recovery plan introduced on Sunday – along with a second devaluation – by Mr Shimon Peres, the Finance Minister.

This is in line with the Treasury's strategy of encouraging export-led growth and opening up credit from abroad and from Israel's own resources.

Israel's gross domestic product is estimated to have risen only 1 per cent in 1988, compared with 5 per cent in 1987 and 3-4 per cent in 1985 and 1986. Exports of goods and services, at fixed prices, fell 3 per cent after rising 11 per cent in 1987, although the current account deficit was steady at \$3.4bn (£1.8bn).

Cabinet is expected to vote on Mr Peres' package on Thursday. It has been well received in general, but three big spending departments – Defence, Health and Education – are resisting their share of the 1bn shekel budget cuts proposed for the coming year.

Mr Peres wants the military to cut spending by at least 300m shekels, including absorbing the cost of suppressing the Palestinian uprising in the occupied territories, estimated at 250m shekels.

The army claims such cuts would hamper its ability to keep up with Arab states in the high-technology arms race. If the cuts are imposed, the general staff is expected to increase pressure for a political solution to the Palestinian problem.

The Histadrut trade union federation is insisting on a new cost-of-living agreement to protect workers from another round of price rises.

Mr Peres threatened a surtax on high-income earners to show workers they are not bearing an unfair share of austerity, but Treasury economists were reported to be urging him to think again.

Consumer prices are expected to go up 7 per cent in the next three months, but Professor Michael Bruno, governor of the Bank of Israel, predicted on Sunday that inflation would fall to single figures by the end of the year. It is now about 17 per cent a year.

Mr Peres' package included:

● A second devaluation of the shekel, making a total of 12 per cent in the past week. The central bank yesterday denied rumours it was planning a further 1 per cent devaluation, but exchange rates will be allowed to float up to 3 per cent in either direction from the new level of 1.81 shekels to the dollar.

● A cut in the budget deficit by 1bn shekels.

● Elimination of customs duties and reduction of purchase tax following free trade agreements with the European Community and the US.

● A cut of 400m shekels in food subsidies, which came into force at the weekend.

● Reform of money, credit and capital markets, giving corporate borrowers easier access to foreign and local sources.

● A rescue programme for ailing companies with credible prospects of recovery.

Afghan rift clouds peace hopes

Christina Lamb reports on the latest round of talks with Moscow

Hekmatyar: holding out for party-based poll

THE SECOND round of direct peace talks between the Afghan resistance and the Soviet Union is due to start in Islamabad this week, but chances of a political settlement to the nine-year war are clouded by divisions amongst the seven Pakistan-based resistance parties.

Officials in Pakistan confirm that Mr Yuli Vorontsov, the Soviet Deputy Foreign Minister and chief Soviet negotiator, is expected in the capital tomorrow. But the resistance in Pakistan has been angered by Mr Vorontsov's meeting in Rome last month with Zahir Shah, the former king who was deposed in 1973, and by his arrival in Tehran yesterday to talk to Iran-based resistance leaders.

Mr Gulbuddin Hekmatyar, leader of Hezbi Islami, accused the Soviets of trying to create disunity among the Mujahideen by opening different channels, adding "if this is going on it is not useful to sit with the Russians".

Two other resistance leaders, Mr Maulvi Khalif and Mr Abdur Rasul Sayyaf, have yet to agree on direct dealings with the Soviet Union.

Mr Burhanuddin Rabbani – who as chairman of the seven-party alliance headed the Afghan delegation in the first talks which took place in Saudi Arabia early last month – believes that the second round will occur but warns that if anything is to be achieved both sides must come armed with specific proposals.

Representatives of the alliance have been holding last-minute meetings to try to hammer out a united strategy with which to approach the Soviets. After intensive discussions with high-ranking officials of Pakistan's military intelligence the resistance leadership held a two-day Supreme Council session in Paddi near their headquarters in Peshawar, attended by 140 party officials and religious scholars.

The council decided that its previous plan to hold elections both in refugee camps in Pakistan and inside Afghanistan, should be delayed because many areas are snowbound or are experiencing an intensification of fighting.

But Western diplomats say the more likely reason is that some of the resistance leaders fear that the planned elected 420-member Shoora (assembly), comprising a large number of commanders and intellectuals, will dissolve the alliance, leaving them with little if any say in the future of Afghanistan.

Moreover, the alliance has been unable to agree on the form of the election. Mr Hekmatyar is holding out for party-based elections under proportional representation, his party being the best organised if not the most representative, while others say the election should be non-party or even that the Shoora should be nominated.

The Supreme Council is considering two alternatives. A list of names is being prepared for a 100-member consultative council, to include "good Moslims" from the Kabul administration. However, Mr Hekmatyar said that the Supreme Council may instead decided to give a vote of confidence to the interim government formed in August which would then supervise initial reconstruction and the eventual holding of elections.

The interim government was created under pressure from Pakistan, which felt that the Soviet Union and the Kabul regime were being seen to make all the initiatives, while the political progress of the resistance was lagging way behind its performance on the battlefield.

This was widely rejected as unrepresentative, dominated by fundamentalists and having no Shia members, although Shias make up 15 per cent of the population. It has since faded into obscurity.

The first session of direct peace talks between the Mujahideen and high-ranking Soviet officials had no fixed agenda, and Mr Rabbani criticised Mr Vorontsov, for failing to come up with new suggestions and still insisting on the participation of the PDPA – which heads the present communist regime – in the future Kabul government.

"There can be no peace until the PDPA is removed. We asked Mr Vorontsov; how can you expect us to share power with those who still have blood on their hands from killing more than 1.3m of our people as well as creating 7m refugees, and destroying 70 per cent of our country?"

Mr Vorontsov's proposals for a ceasefire, also stated by Soviet leader Mr Mikhail Gorbachev at the UN General Assembly in New York in December, were rejected too. But Mr Rabbani said: "If the Soviets show their good intentions by stopping all air and rocket attacks on the Afghan people and removing the Scud missiles and other newly-deployed weapons, we will not attack their withdrawing troops."

The Mujahideen later rejected a Soviet-backed offer made by Mr Najibullah, the Afghan President, who on January 1 announced a four-day unilateral ceasefire, giving the resistance two weeks to end their fighting or face an all-out offensive.

Mr Rabbani claims; "The Soviets are asking for a ceasefire because they want a division. They want to freeze the status quo so that the parts of the country under their control stay under their control so that there are two Afghanistans just as there are were Vietnams."

Although the Soviet Union has indicated its intention to drop the PDPA both in conversation with diplomats and by arranging to airlift many prominent party members and their families from Kabul, the Afghan resistance doubts Moscow's intentions.

As a result, Mr Rabbani's previous confidence that the Soviets were on the verge of accepting the Mujahideen proposals seems to have evaporated. A senior Foreign Office official admits that Pakistan is again having difficulty keeping the alliance together at this critical stage just six weeks before the last Soviet soldier is due to leave Afghanistan.

In particular Mr Vorontsov's meeting with Zahir Shah brought to the surface old rifts between the fundamentalists and royalists within the resistance alliance. The alliance is sharply divided over whether Zahir Shah should be given a place in the future government of Afghanistan and Mr Hekmatyar, Mr Rabbani and Mr Sayyaf, have warned that if Zahir Shah attempts to return his life will be in danger.

At the Islamabad talks the Soviets are expected to propose some form of broad-based council headed by or including the former king. Zahir Shah himself has repeatedly stated that he will not take part in any arrangements which includes Mr Najibullah and that he will only return if there is consensus among the Mujahideen.

Mr Rabbani has stated that whatever the outcome of this week's talks, Afghanistan will not become a second Lebanon.

However, though few doubt that without Soviet backing the PDPA government cannot survive, equally few have confidence in the ability of the alliance to establish an administration in Kabul. In support of their claim they point out that a major reason for the Mujahideen's failure to capture any large provincial towns has been the commanders' fears that they will not be able to cater to the needs of civilians.

With the Soviet withdrawal scheduled to end by February 15, there is little time left for the two sides to come up with a proposal which appeases all factions of the Mujahideen as well as providing a face-saving formula for the Soviet Union. But without a political settlement further bloodshed is sadly inevitable.

President pledges to lead Sri Lanka to peace

By Mervyn de Silva in Colombo

SRI LANKA'S new President, Mr Ranasinghe Premadasa, yesterday dedicated himself to leading the strife-torn island to unity and peace.

At a glittering inauguration ceremony held in the sacred Buddhist "Temple of the Tooth" in Kandy, the island's hill capital, Mr Premadasa told the nation: "I dedicate to lead my people to unity and amity . . . to peace and harmony."

Dubbed the "common man's president," Mr Premadasa repeated his invitation to the rebels to join in the democratic process. "I am available at any time, anywhere, for any discussion in order to arrive at constructive solutions," he said.

Mr Premadasa, 64, the country's Prime Minister for the past 11 years, succeeds President Junius Jayawardene, 83, who relinquished office on Sunday after 11 years – the last six of which have been marred by a revolt by the minority Tamil community in the north and east, and by the extremist JVP group from the majority Sinhalese community in the south.

Mr Premadasa, a devout Buddhist, who defeated former Prime Minister Mrs Sirimavo Bandaranaike in a keenly contested election on December 19, chose January 2 as an auspicious day for his inauguration.

Since winning the election he has dropped many senior ministers from a caretaker cabinet which will run the country until parliamentary elections on February 15.

He faces a critical test in the general elections when 9.4m voters will elect an enlarged 225-seat parliament for the first time on a proportional representation system.

Mr Premadasa has said he will prune defence spending. But the JVP, which has halted major armed attacks, appears not to have made up its mind yet on how to deal with a new regime. The JVP's main propagandist target has been the presence of 50,000 Indian troops in the Tamil areas.

● K.K. Sharma in New Delhi writes: The Indian Government indicated yesterday that it would withdraw its peacekeeping force in Sri Lanka in phases. In a first step, two battalions, or roughly 3,000 men, are to be pulled out as a gesture following the election of Mr Premadasa, who has made it clear that he favours a total pull-out by the Indian army.

An Indian Government statement yesterday said withdrawals would be made in consultation with the Sri Lanka Government as the situation in the island republic improved and the terms of the 1987 Indo-Sri Lanka accord were implemented. No timetable for full withdrawal was mentioned.

India rejects clemency plea for Gandhi killer

INDIA'S President Ramaswamy Venkataraman yesterday rejected a plea for clemency from Kehar Singh, one of the two Sikhs condemned to death for the 1984 assassination of Prime Minister Indira Gandhi, defence lawyers said, AP reports from New Delhi.

Lawyers for the two men were expected to file another round of appeals to try to block the hangings of Kehar Singh and Satwant Singh.

Defence lawyer Mr R.S. Sodhi said President Venkataraman sent a letter to Kehar Singh's son, Rajinder, informing him of the decision.

It was the second time the President has rejected a mercy petition filed by Kehar Singh.

The letter was released by Rajinder Singh to the United News of India and Press Trust of India news agencies. It gave no reason for the rejection – the last avenue for clemency.

With the rejection, the stay against the execution of Kehar Singh and Satwant Singh has been automatically nullified.

Satwant Singh has not filed a mercy petition with the President. But under Indian laws, his death sentence was automatically delayed when Kehar Singh asked for clemency.

WORLD ECONOMIC INDICATORS

UNEMPLOYMENT

	Nov. '88	Oct.'88	Sept.'88	Nov. '87
USA 000's	6,595	6,491	6,596	7,090
%	5.4	5.3	5.4	5.9
UK 000's	2,067	2,119	2,311	2,686
%	7.3	7.5	8.2	9.5
W.Germany 000'a	2,211	2,231	2,242	2,249
%	8.5	8.6	8.7	8.9
Belgium 000's	373.5	377.1	381.4	417.2
%	10.7	10.9	11.2	11.9
Netherlands 000's	678.6	678.2	687.8	679.9
%	13.9	13.9	14.1	14.0
	Oct.'88	Sept.'88	Aug.'88	Oct.'87
Japan 000's	1,470	1,530	1,620	1,660
%	2.40	2.50	2.60	2.73
Italy 000's	3,870	3,868	3,870	3,328
%	16.7	16.6	16.7	14.3
	Sept.'88	Oct.'88	Aug.'88	Sept.'87
France 000'e	2,633	2,552	2,470	2,674
%	11.2	10.9	10.5	11.4

Rival Moslem militias in Beirut battles

RIVAL Moslem militias battled in Beirut's southern slums for a third day yesterday and fought artillery duels near Israel's self-designated security zone in south Lebanon, police said, AP reports from Beirut.

Five people died and 21 were wounded in south Beirut, where the mainstream Amal militia and the fundamentalist Hezbollah engaged in grenade attacks and mortar barrages.

Yesterday's toll brought the overall casualty count to 12 killed and 29 wounded since new fighting between the rival Shiite groups erupted on Saturday for dominance of Lebanon's 1m Shiites.

Amal, Arabic for hope, is backed by Syria. Hezbollah, or Party of God, is supported by Iran. The militias accused each other of kindling the clashes.

Beirut radio stations said Syria was considering a re-deployment of its 4,500 peacekeeping troops in the slums to "improve their performance and prevent further fighting."

It was the first serious clash between Amal and Hezbollah since November, when the two sides fought for six days in west and south Beirut, killing 40 people and wounding 87.

Last May, nearly 300 people died and 1,000 were wounded in a three-week bloodbath between Amal and Hezbollah.

In south Lebanon, police said Amal and Hezbollah gunners poured mortar fire and Katyusha rockets on each other's strongholds in Iklim el-Tuffah.

Iran prepares to resume exports of natural gas

IRAN, detailing its first budget since the ceasefire in its war with Iraq, has indicated it is preparing to resume natural gas exports, Reuter reports from Nicosia.

Mr Mir Hussein Mousavi, the Prime Minister, told parliament his budget bill also covered repairs to war-damaged oil facilities and power plants, Tehran Radio reported.

The budget for the Iranian year beginning on March 21 put total government spending at 3,856bn rials (£30.8bn). Mr Mousavi did not give a figure for the budget deficit, which grew during the eight-year war to a projected 1,000bn rials in the current year.

He said foreign exchange earnings next year would be boosted by natural gas and fuel oil exports. Iran has the world'e second largest gas reserves after the Soviet Union.

Tehran and Moscow agreed last month to resume Iranian gas supplies through a pipeline to the Soviet Union, cut off in 1980 over a pricing dispute.

Details of price and volume were not given.

Oil Minister Gholamreza Aqazadeh said last month thet gas for the Soviet Union would come from the Kangan refinery in the south, which was not likely to come on stream for another year.

Mr Mousavi said credits earmarked for agriculture and water projects in the bill were 10.5 per cent higher than in the current year. Education, health and social security accounted for 37 per cent of the budget.

He did not give a figure for military expenditure, but said government spending excluding war-related expenses would grow by 3.2 per cent. The war has absorbed about a third of government revenues, according to independent estimates.

Iran's revenue from crude oil exports last year was estimated at \$8bn-\$9bn and Iran also earned \$1bn from exports of non-oil goods, Mr Mousavi said.

He said tax revenues would rise by 11 per cent.

UK NEWS

Estimates cast doubt on electricity sell-off plans

By Max Wilkinson, Resources Editor

Cecil Parkinson may face uncertainties over privatisation

THE GOVERNMENT may be seriously over-estimating the number of new power stations Britain will need by the end of the century, according to consultants advising the industry.

The new estimates will increase the uncertainties facing the Government about the terms on which the industry is to be privatised. They may also seriously undermine ministers' hopes of promoting a strong independent power generation sector after the sale.

Two years ago, when Mr Cecil Parkinson, Energy Secretary, decided to push electricity prices up sharply in 1988 and 1989, he suggested that some £40bn would need to be invested in the industry by the early years of the next century.

Higher prices were required to increase the industry's rate of return to finance this enormous expenditure, he said.

The Central Electricity Generating Board, which generates and distributes the energy, now expects 15,000 megawatts (MW) of new capacity to be needed by the end of the century, equivalent to some 16 very large turbine generator sets.

However, consultants have recently estimated that demand may turn out to be only about half that figure, and perhaps even less if privatisation creates new incentives to economise on capital spending.

Dr Nigel Eden, director of Caminus Energy, the Cambridge consultancy which is advising the area electricity boards, believes only 6,000MW of non-nuclear plant may be needed by year 2000. At current prices that would cost about £4.5bn, only about a tenth of Mr Parkinson's original figure.

Putnam Hayes and Bartlett, the US consultant which is also advising the industry, thinks that recent projections of power plant needs may be an over-estimate.

On some assumptions, it has said that no new plants would be needed in the period, besides the nuclear stations to which the Government is already committed and some smaller sets to meet peak demands.

The lower forecasts are based on the view that:

● Imports from Scotland could be higher than the CEGB expects.

● Older plants could be refurbished to last longer than expected at present.

● Peak demand in winter could be met by building more small, cheap gas turbines rather than large smokestack plants. In summer there is plenty of spare capacity.

● Industrial customers may be persuaded by new tariff structures to use less power at peak periods or to start up their own stand-by generators.

Although the consultants do not claim precision for their new predictions, they have introduced an uncertainty which will make the industry less attractive to independent generating companies, which the Government hopes will compete in the generating market after privatisation.

Most independent generating companies are likely to be financed largely by bank loans.

They therefore need to be able to assure their creditors of healthy demand for their product all year, for 15 to 20 years.

Another difficulty for the Government is that uncertainties about future demand for electricity will increase the risk of e wrong valuation of the indnstry's assets at the time of privatisation.

Since 12 private distribution companies are expected to hold supply contracts for the output of separate power stations, an accurate capital value will need to be put on each plant.

Valuation of the industry's assets is one of the thorniest problems which the Government will have to solve this year.

Accountants set to fall out over merger plans

By Richard Waters

THE PROPOSED merger between the UK's two institutes of chartered accountants looks unlikely to win the support of members of at least one of the bodies later this year, according to the first thorough analysis of voting intentions.

If accurate, the findings herald the demise of the first major attempt since 1970 to bring a degree of unification into the fragmented UK accountancy profession.

Nearly twice as many members of the Institute of Chartered Accountants of Scotland intend to vote against the plan to merge with the Institute of Chartered Accountants in England and Wales as to vote for it, according to the survey, commissioned by nine dissident Scottish accountants.

While two-thirds of the Scots voting must support the merger for it to go ahead, the survey shows that 43 per cent have decided to vote against the proposal.

Just 24 per cent have decided to support the move, which carries the recommendation of the leaders of the Scottish profession, while the remainder failed to express any clear intention.

If the sample of 620 is representative of the Scottish institute's 12,000 members, the findings mean there is little hope of a positive result in the full vote planned for June.

Mr Andrew McCosh, professor of organisation of industry and commerce at Edinburgh University, said the findings showed that the institutes should give up the merger plans and devote their resources to more important issues.

The leaders of both institutes have claimed that they would have more influence if they spoke with one voice. The Government has also said it would prefer to receive representations from a single body.

Giving further impetus to the merger plan are changes in the law which make accountancy firms as a whole, rather than only individual accountants, subject to regulation.

This will force a degree of co-operation between the two bodies.

Midland Bank to pay interest on current accounts

By David Lascelles, Banking Editor

MIDLAND BANK, big clearing bank, is to introduce the payment of interest on current (chequebook) accounts on February 20, making it the second bank after Lloyds to set a firm date.

Midland's plans, which are to be announced in detail today, are part of a wide-ranging package of services which it will be offering with three existing accounts. Unlike Lloyds, Midland is not introducing a completely new type of account.

The rate of interest which will be paid has not yet been set, but Midland says that on the basis of current rates it would be between 5 and 8 per cent, depending on the type of account chosen by the customer. Lloyds' rate will be 4.5 to 6.5 per cent, depending on the size of the balance.

The interest will be paid on three accounts which Midland has been developing over the last two years to suit different types of customer. These are Vector, Orchard and Meridian.

Each will offer current account, overdraft and savings facilities, with various add-ons. New features will include a Midland Visa credit card (to be called Indigo), monthly rather than quarterly charging, and the first £100 cheque guarantee card issued by one of the Big Four clearing banks.

Mr Kevin Gavaghan, Midland's marketing director, said the accounts had been designed on the basis of extensive research which had segmented the market according to several factors, including people's attitudes towards money. He expected 15 to 17 per cent of Midland's existing 4.5m customers to switch over to one of the new accounts this year.

The overall cost to Midland of paying interest, offset by additional fees from the accounts, would be £15m in the first year and £40m in 1991. Mr Gavaghan said that while the bulk of the new accountholders would be existing Midland customers, he expected 10 per cent to migrate from another bank or building society.

He said Midland had been planning to introduce the new accounts in April, but had decided to bring the date forward because of Lloyds' announcement of its new Classic account in October. The Lloyds account becomes available tomorrow.

Both NatWest and Barclays Bank, the other two of the Big Four clearing banks, are expected to announce their plans shortly.

Motor talks likely to fuel fears over pay pressures

By Charles Leadbeater, Labour Editor

CONCERN that recent increases in inflation and interest rates could lead to higher pay pressure is likely to be fuelled by crucial pay negotiations in the motor and engineering industry in the next few weeks.

The first signs of an inflationary spiral creeping back into pay negotiations emerged towards the end of last month with an increasing number of pay settlements of 7 per cent, according to a recent report by Incomes Data Services, the pay research company.

Attention in the next few weeks is likely to focus on four negotiations

● Unions at Jaguar, luxury car manufacturer, may consider holding a ballot on industrial action if there is no early progress in pay negotiations.

● Negotiations covering about 4,500 manual workers are also dne to resume at Peugeot Talbot in Coventry.

● About 1,700 manual workers at the IBC van plant at Luton have been offered a 7 per cent increase backdated to December and an inflation-linked increase from next December.

● Talks covering 800,000 engineering workers, which affect the pay of up to 2m workers in the sector are due to resume later this month.

'Tough year' ahead for coal industry

THE NEXT year could be one of the toughest the British coal industry has faced, Sir Robert Haslam, chairman of British Coal, told miners yesterday in his new year message, writes our Labour staff.

With the 1988 pay negotiations between the corporation and its two production unions, the National Union of Mineworkers and the Union of Democratic Mineworkers still unresolved, Sir Robert called for a new co-operative approach to industrial relations.

Against the backdrop of a price freeze which was likely to continue until November, it was vital that recent improvements in productivity were maintained into 1989, he said.

Improving the use of costly capital machinery through the introduction of more flexible shift patterns and working practices would be vital to continue reducing costs.

He called on national and local NUM leaders to drop "adversarial attitndes" and encourage miners to identify with the business' success.

Sir Robert said it was also essential that safety standards should not be relaxed.

Industry sectors 'may gain from unified EC market'

By Peter Norman, Economics Correspondent

THE CREATION of a unified European Community market by 1992 could benefit several British manufacturing industries as well as the services sector, where Britain has long been regarded as a potential gainer, Lloyds Bank says.

The bank's latest monthly economic bulletin pinpoints pharmaceuticals, food and tobacco, precision and medical equipment, parts of electrical engineering and possibly office and data processing equipment as the manufacturing industries in Britain which should gain from the disappearance of technical barriers in the EC.

On the other hand, the 1992 initiative could result in a further shrinking of the British mechanical engineering industry as the breakdown of barriers exposes this sector to greater competition from more competitive EC producers.

Writing in the bulletin, Mr Patrick Foley, Lloyds Bank's deputy chief economic adviser, warns that British companies with their strong reliance on equity finance could be more open to takeover than companies elsewhere in Europe.

British industry could also suffer if the Government continues to keep the pound out of the European Monetary System because exchange rate volatility or a permanently high real exchange rate will have a bigger impact in the unified EC market than at present.

In financial services, Britain benefits from an abundance of skilled labour and technological support but could suffer if London financial markets are made less liberal in the course of harmonising EC regulations.

● Britain is approaching 1992 from a weak industrial base, the Labour Research Department, an independent trade union and labour movement organisation, says in its latest issue of the Labour Research journal. Of the largest 25 manufacturing companies in Europe, only British Aerospace and GEC are wholly UK-based companies, it says.

● Few businessmen in Europe expect to make structural changes to their organisations in response to the EC's free internal market, writes Richard Waters.

This contradicts widespread predictions of upheaval in many companies as a result of the changes, including a wave of cross-border mergers and acquisitions.

The finding is one of the conclusions of a survey of 700 businessmen across all EC countries by KPMG, the world's largest accountancy group. The survey found, however, that almost two thirds of companies are considering some form of association with companies in other EC countries. These strategic alliances are most likely to include joint ventures, licensing arrangements, franchises, and distribution and sales agreements, say the accountants. They are aimed at improving a company's marketing, sales and distribution in response to the greater market opportunities.

By contrast, few companies plan to adapt their production function by relocating it when internal barriers are lowered. This lack of reorganisation suggests many of the economies of scale envisaged by the Commission will not be forthcoming at once, says KPMG.

1992: Getting ready, Wendy Bennie, Peat Marwick McLintock, 1 Puddle Dock, London, EC4V 3PD

Watching television is favourite pastime

By Alan Pike, Social Affairs Correspondent

WATCHING television is by far the most popular leisure pastime in contemporary Britain, according to Britain 1989, An Official Handbook, the standard work of reference used by British information services overseas.

The book celebrates its 40th anniversary with the publication of the 1989 edition today. Among the gems of information it contains are that almost all households have a television set and 51 per cent have two or more; the proportion of households with a video recorder almost doubled between 1984 and 1987, from 24 to 46 per cent.

British residents took 20m holidays overseas during 1987 – Spain, France and Greece were the most popular destinations – and another 28.5m at home.

The average age at which women have their first child in marriage has risen to 27; more than a third of all pregnancies in 1987 were conceived outside marriage.

Life expectancy is now about 72 years for a man and 78 for a woman, compared with 49 and 52 years respectively at the beginning of the century. The number of people smoking continues to fall.

Other facts in the book are:

● Britain is the world's second largest producer of marine-dredged sand and gravel;

● In spite of a continuing increase in road vehicles the number of petrol stations is declining;

● It has cost £160m to equip public payphones with push-button equipment.

The handbook is produced by the Central Office of Information for the Foreign and Commonwealth Office but is also on sale at home, where British readers will gain an illuminating insight into their own society.

Britain 1989, An Official Handbook, HMSO, £13.95.

More funds for roads expected

By John Mason

SUBSTANTIAL extra public funding for Britain's road programme, expected to be announced in the next two months, could be trimmed back if private sector involvement were to be increased.

Mr Paul Channon, the Transport Secretary, is understood to have won approval in principle for a large increase in road funding.

The precise amount of the new money will not be decided until after the two-yearly review of road building strategy is completed this spring.

However, some of the money could be clawed back if private sector involvement in the road programme increases.

Few people 'taking steps against inheritance tax'

By Richard Waters

FEW of those who believe they are vulnerable to inheritance tax have taken steps to reduce its impact, according to a nationwide survey by Mintel, the market research company.

A quarter of all adults think the tax could affect them but less than a half of one per cent have done anything to avert it, according to the report.

The tax, at a 40 per cent rate, applies potentially to all estates worth more than £110,000. The most recent evidence available, for 1985, shows that only about 3 per cent of estates were actually liable to inheritance tax, Mintel notes.

However, recent rises in house and share prices have made more people aware that they could be subject to tax.

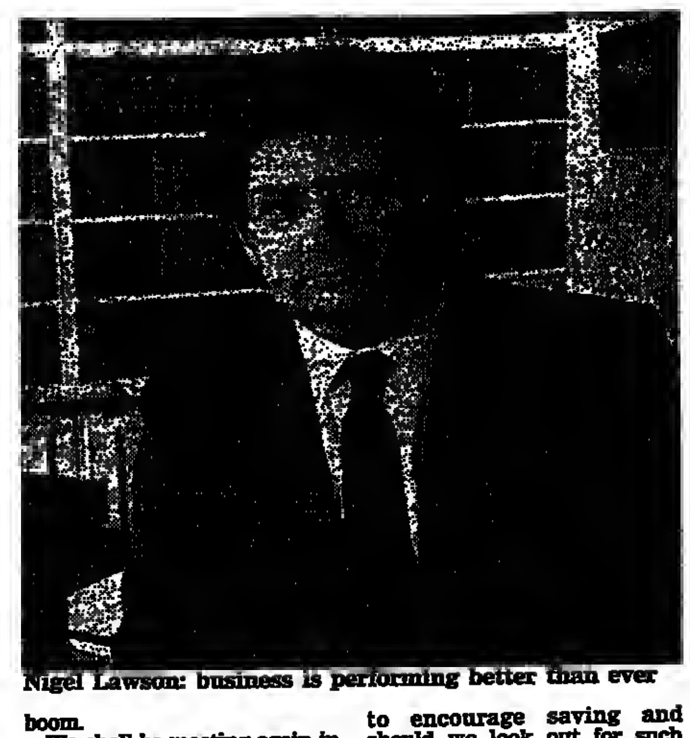
Of the 1,880 adults in the survey, only six said they had invested in an inheritance tax plan offered by an insurance company to meet the tax bill.

One reason for the low level of tax planning in this area is the lack of marketing of the products available, Mintel comments. Another suggested explanation is that individuals who pass on wealth are not those who will pay the tax.

Personal Finance Intelligence, Mintel, KAE House, 7 Arundel Street, London, WC2R 3DR. Price £245.

New Year interview with the Chancellor, continued from Page 1

Lawson warns of recession danger



Nigel Lawson: business is performing better than ever

national income statistics is a nuisance, but chiefly because of the danger that the markets will pay too much attention to them.

Q: Britain depends on foreign currency inflows to finance a current account balance of payments deficit of around £13bn a year. Are you concerned thet the country's dependence on foreign investors will limit your ability to stimulate the economy when you judge the time to be ripe?

A: In the modern world, a sophisticated and deregulated economy like ours is dependent to a considerable extent on overseas confidence, irrespective of whether the current account of the balance of payments is in deficit or surplus.

And that confidence is, not surprisingly, high: British business is performing better than ever, we have a substantial Budget surplus, we have demonstrated that we are not afraid to raise interest rates whenever it is necessary to do so, profitability is high and rising, productivity is rising fast, we are one of the world's biggest net creditor nations, and our foreign exchange reserves stand at record levels – to name only a few of the factors that go to determine international creditworthiness.

Hence, for example, we have been able to finance this year's substantial current account deficit – although the official figures clearly exaggerate its true size, with a positive "balancing item" for the first three quarters larger than the current deficit itself – without any difficulty.

But, of course, I have not the slightest intention of "stimulating the economy when the time is ripe." That is the discredited neo-Keynesian language of the Sixties and Seventies. The stimulus is present all the time: it is inherent in the enterprise culture, brought about by the supply side revolution there has been, as a result of trade union reform, tax reform and the like.

Q: Britain remains outside the exchange rate mechanism (ERM) of the European Monetary System. Doesn't this show of sovereignty simply mean that the UK is able to inflate faster than its European partners?

A: We will join the exchange rate mechanism of the EMS when the Government considers the time is right, and we shall do so because of the advantages that will bring to the conduct of anti-inflation policy. But your question appears to be based on a wholly false premise: first, there are differences in inflation rates even within those countries that are members of the ERM, and, second, we have not the slightest desire to inflate faster than our European partners – quite the reverse.

Q: You have been cool towards the idea of a meeting of the Group of Seven leading industrial nations soon after President Bush takes office to discuss world economic developments. Does this mean that you have lost your earlier enthusiasm for international co-operation on economic policy making?

A: Not at all. I believe that the international co-operation we have had within the G5 and G7 over the past three years and more, and in which I have played a full part, has been clearly beneficial, and should continue. It has done much to create the conditions for the present worldwide investment boom.

We shall be meeting again in the normal course of events at the beginning of April; but should the new American administration – which of course has not yet taken office – wish to discuss with the rest of us how it sees the way ahead at an earlier stage, well and good. But if there is to be an earlier meeting, it should be understood by the markets that no visible outcome is to be expected, nor is there any "crisis" requiring one.

Q: Are there any circumstances in which you would permit a depreciation of sterling?

A: There can be such circumstances – as, for example, in the wake of the oil price collapse of 1986. But they are few and far between, and most emphatically do not obtain at the present time, nor are they likely to in the foreseeable future.

Q: Which is your preferred guideline for Sterling: the D-Mark, the Bank of England's trade-weighted exchange rate index or some other measure?

A: I take all these into account – though inevitably as we move towards 1992 the relative importance of the D-Mark is likely to increase.

Q: Under your chancellorship, government finances have shifted from deficit to surplus. Does the transformation of the public sector borrowing requirement into a substantial public sector debt repayment mean that you have abandoned your earlier goal of a balanced budget? Do you think your policies have produced a structural budget surplus?

A: I continue to see a balanced budget as a sensible long-term norm. But given the constant need for prudence and caution, and the balance of risks, I would always rather err on the side of surplus than on the side of deficit. The substantial shift we have secured, from deficit to surplus has been a major achievement and is a source of great strength for the British economy. It also ensures that the income tax reductions I have been able to make are eminently sustainable, which is clearly important.

Q: In recent years there has been a dramatic fall in the savings rate, which has coincided with the emergence of Britain's large current account balance of payments deficit. Does Britain need new policies to encourage saving and should we look out for such policies in the next budget?

A: It is wrong to exaggerate the overall fall in the savings rate. There has certainly been a sharp fall in personal savings, but against that has to be set the fact that the corporate savings ratio has been rising, while the Government itself of course has moved from deficit to surplus.

As for the personal sector, the decline in the savings ratio – which is of course a net concept: gross savings net of borrowing – is primarily the result of the explosion in personal borrowing, chiefly mortgage borrowing. This is a highly cyclical phenomenon, which on this occasion has been exaggerated by the once-for-all shift from an era in which credit was rationed and directly controlled to one in which it is determined by the self discipline of borrowers and lenders and by the price mechanism (the interest rate).

It is now clear that the personal credit cycle is turning, as the changed state of the housing market in the Midlands and the south clearly testifies.

It is worth adding, incidentally, that the emergence of a large gap between investment in the UK and domestic savings, which is being filled by savings from overseas – the counterpart of the current account deficit – is due more to a thoroughly healthy upsurge in investment, than to a decline in savings. Investment has been growing almost twice as fast as consumption over the last five years, and private sector investment is now at its highest level as a percentage of GDP since records began in the 1950s.

Q: You have admitted that cutting bank base rates to 7.5 per cent in the spring was a mistake and many families will face serious financial problems in the New Year as the recent rises in interest rates feed through into the mortgage market. Isn't the Government guilty of seriously misleading people into an over-optimistic assessment of their personal financial positions by cutting taxes *and* interest rates in the spring?

A: I think you are slightly confused. I have admitted that the loosening of monetary policy in the wake of the stock market crash of last October did, with the benefit of hindsight, lead to subsequent difficulties that have had to be addressed by a sharp tightening of monetary policy. But they are nothing like the dangers that threatened had I not responded to the crash in the way I did. The reduction to 7½ per cent for two weeks in the spring was too short-lived to have any significant effect on domestic conditions. Moreover, the reductions in the first half of 1988, unlike those at the end of 1987, were not reflected to any marked extent in lower mortgage interest rates.

As for the Budget, I have no regrets whatever. It was a fiscal milestone: a major supply side reform that will bring benefits for years to come.

Finally, it is of course nonsense to talk of the Government "seriously misleading people." No Government has done more to set out its policy and to stick to it. I remember, too, my very first speech on being renewed in office as Chancellor in June 1987, when I warned very clearly that short-term interest rates were the essential instrument of monetary policy and that I would not hesitate to raise them whenever it was necessary to do so. Nor, indeed, was this at all new: I had increased interest rates sharply in 1985, when we last had a temporary edging up in the rate of inflation.

Q: You have argued that the economic problems facing this country are those of success and that foreign confidence in Britain is high. Why then do we require higher real rates of interest in this country than in other countries?

A: Savings behaviour depends, among other things, on the degree of financial deregulation and even more on cultural factors, and these are bound to vary from country to country. Different countries, too, have different histories – different inflation track records – and this too is relevant. So it would be very surprising if the appropriate real rate of interest was the same in every country, although the extent of any difference tends to be exaggerated.

What is encouraging, incidentally, is the shape of the yield curve in this country: while our short-term rates are currently quite high by international standards, our long-term interest rates are appreciably lower. This clearly shows that confidence in the UK is high and inflationary expectations relatively low.

Q: Do you think the higher interest rates here have anything to do with distortions in the mortgage market?

A: I am not aware that the mortgage market in this country is any more "distorted" than it is in other countries. If you are referring to mortgage interest relief (which incidentally is not peculiar to the UK), we have a clear manifesto commitment to retain it, and we are a Government that believes in honouring its commitments.

It is, however, interesting to note that the much greater extent of mortgage borrowing in the south (as compared with the north), coupled with the much higher proportion of mortgages in excess of £30,000, the limit of tax relief, in the south since house prices are so much higher there, means that the effect of higher interest rates and higher mortgage rates is being felt much more in the south, where the problem of excess demand was most acute. So the current stance of policy is not only particularly apposite, but is helping to secure a better regional balance within the economy.

Kinnock attacks policy of higher interest rates

By Peter Norman, Economics Correspondent

MR NEIL KINNOCK, the Labour leader, yesterday accused Mr Nigel Lawson, the Chancellor, of "comatose complacency" in his handling of the economy.

Speaking on BBC Radio Four's The World at One, Mr Kinnock accused the Chancellor of disregarding the impact of higher interest rates on home buyers and industry.

The Labour leader was responding to comments made by Mr Lawson earlier in the day in another radio interview.

The Chancellor defended his policy of raising interest rates by arguing that everybody would be worse off if inflation was allowed to get out of hand. He said he would not hesitate to raise interest rates "to whatever level is necessary."

Mr Kinnock said there were other ways of controlling inflation than interest rates. Bnt while criticising Mr Lawson for cutting taxes last March when inflationary pressures were beginning to build up, Mr Kinnock held back from advocating a general tax increase in the next Budget.

"As far as the top rate of taxes is concerned there is no doubt that both the amount the Chancellor released into the economy and also the attitude he fostered at the time of the Budget, produced significant consequences in terms of rising consumer demands, increased finished imports, and the difficulties we have got with the balance of payments," Mr Kinnock said.

"But I do not think other tax increases are justifiable for the great majority of people who are having to pay what I call Tory taxes of interest rates and mortgage rates because of the mess the Chancellor has made of the economy last year and in previous years," he added.

Fall in number of visitors to London

THE number of overseas visitors to London dropped to 9.2m last year, compared with the record 9.3m visitors in 1987.

The proportion of visitors to London from North America fell from 28 per cent in 1987 to 23 per cent.

Overseas Visitor Survey, LTB, Borough Liaison and Development Department, 26, Grosvenor Gardens, London, SW1W 0DU, £15.

UK NEWS

Government to discourage water takeovers

By Philip Stephens, Political Editor

THE Government remains concerned to discourage state-owned water authorities from joining takeover battles for private water companies, in spite of a court judgment which appeared to give the go-ahead for such bids.

Ministers have indicated that they would be "reluctant and unlikely" to allow the 10 authorities in England and Wales to raise additional cash for share deals through any relaxation of the financing limits which it sets.

The water authorities, which are themselves due to be privatisated in the autumn, have successfully contested an attempt by the private companies to secure a court ruling outlawing their stake-building.

The association representing the private companies has indicated it will appeal against the decision, which was announced by the High Court just before Christmas. In the meantime, however, at least one authority is considering further share purchases to counter bids for the private companies from French water companies.

That has created a dilemma for the Government, which will retain ultimate control over the authorities until their planned sale in November.

Its basic philosophy is that public sector companies should not be allowed to used taxpayers' money to buy stakes in private sector companies. Against that, it is likely to be aware of the potential political difficulties of allowing French companies a totally free hand to buy up most of the 29 statutory companies.

Ministers have so far given no formal indication of their position, but the official stance at present is that while the Government will accept the judgment of the courts as far as share purchases are concerned, it will not relax the tight External Financing Limits which apply to the 10 authorities. These restrict the amount of cash they are allowed to borrow and, in the case of those authorities with surpluses, provide firm targets for profits.

The Southern Water authority, which is considering bids for a number of companies in its area, may have some flexibility through its joint venture with Mr Duncan Saville, an Australian investor in the water companies. Some authorities might find cash within their financing limits.

Economic growth expected to slow to 3% this year

By Ralph Atkins, Economics Staff

THE FAST economic growth experienced in 1988 will decelerate to a soft landing this year – but not as soft as the Treasury has forecast, according to a Financial Times survey published today.

The compilation of forecasts for 1989 and 1990 suggests Mr Nigel Lawson, the Chancellor, will succeed in slowing growth to around 3 per cent. The most recent Treasury forecast for 1988 growth is 4½ per cent.

However the average of the 22 forecasts shows the current account deficit this year will reach £13.3bn – compared with the Treasury's forecast of £11bn in November's autumn statement.

At the same time the survey shows growth in consumer spending, manufacturing output, investment and exports will be a little less than shown by Treasury forecasts. Import growth and inflation at the end of this year are both forecast to be higher than predicted by Mr Lawson.

The survey shows large variations between forecasting groups – particularly on expectations for 1990. This partly reflects uncertainty about what is currently being shown by official economic statistics which are used as a basis for forecasts. Estimates about gross domestic product growth are especially affected by these doubts.

The FT average is a simple unweighted average that takes no account of different assumptions used by the groups. For some of the indicators, the survey does not exactly compare like with like.

Other survey results include:

- Export growth forecast to reach about 5 per cent this year while imports increase by 5.4 per cent. For 1990, the situation is reversed with exports growing faster than imports.
- Unemployment is predicted to fall slightly to an average of 2m this year from the current rate of about 2.1m. No further fall is expected in 1990.
- Consumer spending is expected to increase by 2.7 per cent this year but then decelerate to 2.3 per cent next year.

This survey is the first to include forecasts for 1990. It shows economists have revised upwards many of their forecasts for 1989 compared with when results were last published in August.

Both inflation and the current account deficit are now expected to be higher this year than forecast last summer. Forecasts for growth in GDP, manufacturing output, investment and export growth have also been revised upwards.

The latest survey shows little variation between forecasts by City institutions and the average for all 22 forecasts. City economists expect a slightly worse current account in 1989 and 1990 but a higher public sector borrowing requirement surplus.

FORECASTS FOR THE UK ECONOMY

(Unemployment, average over period. Balance of payments and PSBR in £bn; PSBR for financial years 1989-90 and 1990-91. Interest rates fourth quarter. Retail price inflation; year to fourth quarter. Others are percentage change over 12 months. Dash indicates information not available)

		Gross Domestic Product		Consumer spending		Manufacturing output		Fixed investment		Retail price inflation		Unemployment Millions		Balance of payments current account		Public Sector Borrowing Requirement		Interest rates (3 month interbank)		Exports volume		Imports volume	
	Date	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989-90	1990-1	1989	1990	1989	1990	1989	1990
Treasury	Nov	3	–	3.5	–	4.0	–	6.0	–	5	–	–	–	-11	–	–	–	–	–	5.5	–	4.5	–
Confederation of British Industry	Nov	3.5	2.2	2.8	1.9	4.8	2.9	7.3	1.9	5.1	5.2	2.8	1.9	-10.7	-9.4	-15.5	-16.9	11.0	10.0	7.6	3.9	3.1	2.1
DRI Europe	Oct	2.6	2.7	3.2	1.9	4.4	1.9	0.5	3.0	6.0	5.0	2.0	1.9	-15.5	-6.0	-10.5	-10.3	11.7	10.5	4.1	7.1	5.6	0.9
Henley Centre	Dec	1.7	1.7	1.9	2.0	4.1	2.0	3.1	1.4	5.3	5.5	2.1	2.2	-12.7	-12.3	-10.0	-8.0	12.2	12.6	3.1	3.8	3.7	3.8
Ernst & Whinney ITEM Club	Dec	2.3	2.6	1.9	3.5	4.2	2.8	5.7	3.1	5.0	4.5	2.0	1.9	-13.7	-14.4	-10.2	-9.1	11.9	16.0	3.4	3.2	6.0	3.5
Liverpool University	Dec	3.8	3.7	2.5	6.0	–	–	–	–	4.0	2.8	1.6	1.4	-10.5	-3.9	-11.6	-13.9	9.9	8.4	–	–	–	–
London Business School	Oct	3.2	2.7	2.8	3.1	8.4	3.7	2.5	2.0	4.6	5.1	2.1	1.9	-11.5	-10.2	-11.9	-12.6	10.1	10.0	6.0	3.0	3.0	1.7
National Institute	Nov	2.6	1.9	2.7	0.4	3.0	0.9	6.5	1.9	5.3	3.5	2.2	2.2	-15.2	-15.7	-15.5	-17.7	11.6	11.6	6.7	4.2	6.7	2.3
OECD	Dec	3.0	2.0	3.75	2.75	–	–	6.75	4.0	5.25	4.75	–	–	-14.6	-16.3	–	–	11.5	10.5	4.5	3.5	6.0	5.0
Oxford Economic Forecasting	Dec	2.7	1.9	3.0	1.9	4.4	4.1	4.1	6.0	3.7	3.9	2.0	2.8	-12.4	-10.7	-12.1	-14.9	11.5	10.5	3.1	4.4	6.0	2.5
CL-Alexanders Laing Cruickshank	Dec	1.4	1.9	2.7	3.1	3.6	2.8	2.3	2.0	5.3	4.7	2.1	2.2	-15.1	-12.0	-11.7	-9.0	10.2	8.5	4.7	3.6	6.9	3.5
Credit Suisse First Boston	Dec	2.7	3.0	3.0	2.5	6.0	4.0	6.0	4.0	5.25	4.5	2.8	2.8	-14.0	-11.9	-14.0	-16.0	10.5	9.5	6.0	5.5	6.0	3.0
Goldman Sachs	Jan	2.6	1.6	1.7	1.9	5.6	2.8	6.2	-2.5	4.0	3.1	2.8	2.1	-11.5	-6.5	-14.0	-12.0	10.0	9.0	6.0	5.2	8.4	2.6
Greenwell Montagu	Dec	2.5	2.9	3.4	2.7	4.6	3.8	5.1	4.0	5.7	4.1	2.0	1.9	-18.0	-12.0	-17.9	-19.0	12.0	10.5	2.8	4.2	6.0	4.1
Hoare Govett	Dec	2.5	3.0	3.0	4.0	3.5	4.0	3.7	3.5	4.0	4.0	2.0	1.9	-16.0	-8.5	-16.0	-19.0	10.0	9.0	4.3	6.2	5.3	6.0
James Capel	Jan	2.8	1.9	2.9	1.6	4.7	2.0	6.0	1.1	5.3	3.2	1.9	1.9	-13.0	-11.9	-14.3	-17.9	10.25	0.5	3.1	3.9	5.2	2.8
Lloyds Bank	Dec	2.1	2.8	2.9	2.4	2.8	2.8	4.6	3.0	4.6	5.0	2.0	2.0	-15.0	-15.0	-10.0	-5.0	11.0	10.0	4.0	4.4	4.6	3.5
Morgan Grenfell	Dec	1.5	2.5	0.3	1.9	4.9	2.2	1.9	1.8	5.6	5.1	2.0	2.0	-14.4	-10.6	-11.5	-5.0	12.3	10.2	4.7	4.4	5.8	1.9
National Westminster	Dec	2.5	2.3	3.0	2.9	3.8	3.5	4.0	3.4	5.1	5.4	2.2	2.3	-12.0	-16.0	-15.0	-12.0	10.7	9.8	3.8	4.0	4.0	4.2
Phillips & Drew	Dec	3.4	2.3	3.9	2.2	4.2	2.9	5.0	2.6	6.0	5.6	2.0	2.2	-16.8	-16.8	-16.6	-21.9	13.0	12.0	4.5	4.2	6.3	3.7
Shearson Lehman Hutton	Dec	3.75	3.25	2.75	2.25	4.75	4.0	7.9	6.0	6.0	5.6	1.9	1.9	-10.0	-10.9	-15.0	-14.0	11.5	10.5	6.0	6.0	5.0	5.0
Warburg Securities	Dec	3.0	2.7	2.9	2.8	3.5	2.8	4.0	3.0	5.2	4.2	2.0	1.9	-14.4	-15.1	-12.5	-13.0	12.0	16.0	5.9	3.3	5.2	3.7
FT average		2.7	2.4	2.7	2.3	4.3	2.0	4.9	2.5	5.3	4.7	2.0	2.0	-13.3	-11.3	-13.2	-13.3	11.1	10.1	5.1	4.4	5.4	3.2
Average of City forecasts		2.8	2.5	2.7	2.5	4.2	3.2	5.2	2.7	8.4	4.7	2.0	2.8	-13.7	-11.5	-13.9	-13.5	11.1	9.9	6.0	4.6	6.0	3.6

NOTES: GDP: Liverpool, LBS, National Institute use output measure; Others use average measure. Consumer spending: Liverpool, non-durable consumption. Retail price inflation: Liverpool, av for year; OECD, average consumer prices. Interest Rates: Liverpool, Treasury bill average for year; CBI, DRI, LBS base rates; OECD short term rates, second half.

Metro-Cammell attracts 15 prospective buyers

By Maurice Samuelson

ABOUT 15 possible purchasers have emerged for the Metro-Cammell train manufacturing interests and the separate bus and taxi-building businesses to be sold by the Laird Group.

Mr Erik Porter, Laird's managing director, confirmed yesterday that many would-be buyers were interested in these two divisions or in specific parts of them. However, suggestions of serious interest by some of the most prominent international engineering companies were at this stage "speculative," he said.

Laird was "in no undue haste" to complete the sale.

The group is selling Metro-Cammell because the division's contribution has declined to barely 4 per cent of group profits from more than 50 per cent five years ago.

The forthcoming sale of Metro-Cammell coincides with interest in the future of British Rail's engineering business, BREL, for which two main offers have emerged.

One is a joint Anglo-French bid by General Electric Company and Alsthom, part of the French industrial group Compagnie Générale d'Electricité. The rival offer for BREL is from a consortium of BREL's own management, Trafalgar House and Asea Brown Boveri.

Decade will see 700,000 moving to south, says regional survey

By Hazel Duffy

NEARLY 700,000 people of working age are expected to move southwards in Britain in the next decade, according to a forecast published today.

The migration will be one symptom of the continuing economic divide between north and south predicted in the study.

But it expects the boundaries of the divide – traditionally taken as the line from the River Severn to The Wash – will move gradually further northwards. This will be partly as a result of more companies moving out of the south-east.

East Anglia and the south-west have experienced rapid population growth in recent years and are now encountering the same labour shortage and house price difficulties as the south-east.

The partial recovery of the West Midlands economy and the proximity of the Midlands to London and the south-east are the main reasons for the expected migration of a further 100,000 people to the Midlands in the next 10 years. Wales is also forecast to benefit from a similar geographical advantage.

The regional study by the Northern Ireland Economic Research Centre is based on the Cambridge Econometrics national forecast. It is one of only a few studies which attempts to break down national material on a regional basis.

Unemployment differentials between the north and the south are expected to persist in the 1990s, in spite of the forecast of the creation of 1.3m jobs nationally.

Regional variations in unemployment levels are also expected to persist in the 1990s.

The large disparities in the rates of participation in the labour market that have emerged lately are also likely to continue.

Low house prices in northern areas, however, are likely to continue to help those in employment enjoy a standard of living above that in much of the south. The average mortgage in the south-east in 1988, for instance, was £40,000 compared with half that amount in regions.

Scotland and Wales are expected to benefit from growth in service activities to a greater extent than the North, with the exception of parts of Yorkshire which have seen a resurgence of services. The weakness in private services that has characterised most of the industrial north, however, is expected to persist. It will be exacerbated by population loss and job losses in manufacturing.

The forecast emphasises, however, that considerable differences in employment patterns and prosperity levels exist within regions – between Merseyside and Cheshire in the north-west, for instance. These might become even more marked, particularly in the West Midlands, where pockets of high unemployment are likely to persist in contrast with recovery and growth in other parts of the region.

Regional Economic Prospects. Available from Cambridge Econometrics, 21 St Andrew's Street, Cambridge CB2 3AX. Full report £1,500. Short report £85.

UK NEWS

Small software house wins space agency contract

By Alan Cane

THE contract for sophisticated software vital to European Space Agency (ESA) plans to develop the Columbus space laboratory has been won by a tiny British software house, in spite of a bruising international political battle which threatened to damage its chances of success.

Systematica, a three-year-old software company based in Bournemouth, is understood to have signed a contract to supply software engineering tools to ESA to enable it to develop software for the space laboratory more rapidly and efficiently than using traditional programming methods.

The company last week refused to comment on the contract but sources say it will supply an initial 28 workstations to ESA worth £200,000 by the end of January. The entire contract could involve more than 200 workstations.

Software engineering tools are special software programs which simplify and augment the work of the programmer or systems analyst, turning software writing into a more scientifically based discipline. They are seen as crucial to the fast and effective development of software for major projects, especially where lives will depend on the integrity of the software.

It is understood that Systematica's Virtual Software Factory came out ahead of prodncts from another British company, Software Sciences, part of Thorn EMI, and the Italian company Intecs in assessments carried out by the Copenhagen-based consultancy Compnter Resources International (CRI) which is handling procurement of the software tools on behalf of ESA.

There had been fears, however, that in spite of its technical superiority it would lose the contract to its Italian competitor because of the UK's lukewarm attitude to space spending.

Countries which are members of ESA expect to get back from its programmes contracts roughly in proportion to their individual contributions. The UK is ESA's fourth biggest paymaster after France, West Germany and Italy but there were continual rows last year between Britain and its European partners over its tardiness in agreeing to new expenditure.

Even though the contract between Systematica and CRI has been signed there are worries that the deal will be called into question again at ESA meetings later this month.

If there are no political hiccups, Systematica would seem to be in a good position to win further contracts for software support for ESA's Hermes and Polar Platform projects.

Its hopes of winning the software support contract for the European Fighter Aircraft which uses the same software methodology as the Columbus laboratory – and against the same competition – would also be strengthened.

Systematica, which will turn over only about £2.5m in the current year, secured a Europe-wide agreement last year with the world's largest minicomputer company, Digital Equipment, for the supply of its software on ths company's scientific workstations.

Rover car prices increase

ROVER GROUP is increasing the prices of all its cars and light commercial vehicles by an average of 4 per cent with effect from today.

The move is part of a new round of car price increases that was triggered two weeks ago by Ford, which is raising prices by an average of 3.9 per cent, also from today.

UK car makers raised prices three times last year and car prices rose significantly faster than the rate of inflation.

Rover Group price increases mean that the total price (including car tax and VAT) of the cheapest Mini will rise to £4,465.

Directors' pay up 9.4% in small companies

By Hazel Duffy

AVERAGE PAY RISES for directors of small companies were 9.4 per cent last year against 13.8 per cent in large companies.

The increases, current in October 1988 and recorded in a survey, were for base pay. Small companies were defined as those with up to £20m turnover, large companies those with more than £300m turnover.

The range in rises for directors of small companies was between 6.3 per cent or less for the bottom quarter to 14.8 per cent for the top quarter.

The typical director in the smaller companies surveyed was a board member of a business with sales of about £10m, who received base pay of £32,000 and total earnings of £35,600.

Four-fifths of the sample had a performance related cash bonus, but only one quarter had share options.

Benefits enjoyed by the director included a car costing £15,000 to £20,000. The normal holiday entitlement was 25 days, plus public holidays.

The break-down of the survey showed that typical base salaries varied according to function and sector. Production directors' median earnings were at the bottom of the scale at £27,000, directors of profit centres at the top with £36,750. Directors of parent companies typically earned £35,000 against £25,000 earned by directors of subsidiary companies.

Earnings for directors in companies with turnovers between £8m and £20m were higher (£38,000) then earnings for directors in companies with turnovers below £8m, where the typical earnings (salary plus bonus) were £30,400.

Directors of companies in the leisure and service sector topped the sector list, at £39,650; those in the building materials and construction sector were lowest with £31,000.

Monks guide to board and senior management remuneration in companies up to £20m turnover, Monks Publications, Debden Green, Saffron Walden, Essex CB11 3LX. £50.

Much more than a 'little local difficulty'

John Hunt on how Macmillan handled a bitter public spending row 30 years ago

THE newly-released Cabinet minutes for 1958 are dominated by the dispute over levels of public expenditure which led to the resignation of Mr Peter Thorneycroft (now Lord Thorneycroft) as Chancellor of the Exchequer, together with his junior Treasury ministers Mr Enoch Powell and Mr Nigel Birch.

The documents, released at the Public Record Office under the 30 year rule, show that it was far from being a "little local difficulty" — the famous phrase coined by Mr Harold Macmillan, then prime minister, when he calmly departed on a Commonwealth tour the day after the three resignations.

The minutes recount the bitter wrangling that went on at repeated emergency Cabinet meetings over the weekend from Friday January 3 to Monday January 6 when the Chancellor and his junior colleagues finally threw in the towel.

The draft estimates for civil and defence expenditure for 1958/59 showed an increase of £153m over the previous year. Mr Thorneycroft argued that if the government was to retain the strength of sterling and reduce inflation, the level of spending for the coming year should be substantially the same as the previous one. Eventually the increase was whittled down to £50m but this did not prevent the resignations.

The documents show that the bitter row shook the government to its foundations. In spite of the imperturbable front maintained in public by Macmillan, he was desperately worried about the effect on Conservative party morale and public confidence.

The files show a continual flow of anxious telegrams between himself and his ministers.

Lord Hailsham, Lord President of the Council and chairman of the Conservative Party, sent a telegram to Mr Macmillan in Ceylon reporting on highly publicised speeches made by Mr Thorneycroft and Mr Birch a few days after the resignations.

"Peter's speech at Monmouth was good, moderate and highly publicised in the Times," he wrote. "Perhaps in the long run this moderation is the more dangerous, but for the present I feel we can write off the danger of a revolt.

"Nigel flapped as usual noisily and somewhat irresponsibly in his constituency last night but I fancy this will be the last instalment for the time being."

Mr Edward Heath, then the Conservative chief whip, sent a message to Mr Macmillan in Pakistan.

"Our members now seem to have settled down again and are waiting until the House resumes before passing final judgement. The party as a whole remains loyal to the Government but is still somewhat perplexed about the reasons for the resignations."

A further cable from Lord Hailsham stated "I saw him (Thorneycroft) on Friday and he struck me as in a resentful and sullen mood but he promised that he would not attempt any revolt in the party – I anticipate some quite choppy water ahead."

Macmillan replied to Hailsham "I am most grateful to you for the way in which you have helped to steady the party throughout the country at rather a critical period. From what I can judge the situation is improving."

The prime minister replied to Mr Heath by saying, "I am hoping that by the time the debate (on the economy) comes the party will have recovered from what must have been a very serious shock."

The late Rab Butler, who was Lord Privy Seal, reported on reaction in the City. He summed it up by what a leading broker had told him - "I would like to see the Government cutting every penny off expenditure. But if it is a matter of political judgement I would prefer to trust Macmillan rather than Thorneycroft."

Commenting on press reaction, he told Macmillan: "Harold Wincott will be writing a fairly strong pro-Thorneycroft piece in the Investors Chronicle. The Economist is inclined to take the same line but will pay more attention to the wider political implications.

"I think the Financial Times will continue to sit on the fence but will veer more towards the Thorneycroft line than it did in yesterday's leader."

Peter Thorneycroft in 1958: he argued for a policy that would retain the strength of sterling

The drama of the Cabinet discussions is well recorded in the minutes. At the beginning Mr Macmillan tried to hold the ring and to defend Mr Thorneycroft's basic premise that expenditure must be severely curtailed. But ministers were overwhelmingly hostile to cuts in their departments, particularly Mr Duncan Sandys, Minister of Defence, and Mr Iain Macleod, Minister of Labour and National Service.

The intense arguments over curtailing the growth of public expenditure foreshadowed the philosophical divisions between "wets" and "dries" within the Cabinet during the early years of the Thatchsr premiership.

In his opening shots on January 3, Mr Thorneycroft said it was essential the government should subject its own expenditure to the same discipline it had imposed on the private sector. He proposed savings from the elimination of nuclear tests and a smaller than planned rise in pay and allowances for the armed services.

In addition he wanted cuts in the social services by suspending the supplementary ophthalmic service, increasing ths charge for welfare milk and raising the amount people would have to pay for the National Health Service element in their national insurance contributions.

All of these would total £100m. Bnt in addition he wanted savings of a further £50m to be achieved by cuts including the abolition of family allowances for the second child

Other ministers immediately objected that this would mean the withdrawal of half of the only post-war social service created by a Conservative government. There were also objections that defence expenditure could not be cut without creating a lack of confidence.

At a further emergency Cabinet later in the afternoon Mr Sandys said he had consulted his junior ministers and was unabls to agree to any watering down of the improvements in armed forces pay and allowances. Mr Thorneycroft retorted that this would lead to union pressure for higher wage increases.

Mr Macmillan adjourned the meeting to allow tempers to cool. When it was resumed Mr Sandys agreed to take another look at whether he could achieve further savings of £7m on the services vote. Mr Macleod was also asked to consider with other ministers whether £30m savings could be made on welfare services.

When the Cabinet met again on Sunday, the Prime Minister pressed ministers to come to a collective view. But Mr Thorneycroft strongly restated the need to contain spending in order to maintain the strength of sterling. The Cabinet, he insisted, must eliminate the possible increase of £153m in government spending for the coming year.

Mr Macleod again objected to the proposed cuts in welfare services, particularly suggestions for increased charges for school milk and a proposal that patients should pay a hospital boarding charge.

Mr Sandys said that in spite of a fresh attempt it had been impossible to secure further savings of £7m on his budget without reducing the proposed increase in pay and allowances for the armed services.

Mr Macmillan again adjourned the meeting for a cooling off period. When it resumed he made a long speech in which he said that it was unreasonable thet minsters should be expected to make such economies at such short notice. To abolish the family allowance for the second child was "neither politically nor socially desirable - it would be contrary to the tradition of ths Conservativs Party.".

Dsfence estimates had already been cut and it was donbtful whether they could suffer further reductions.

However, he felt it might be possible to reduce the proposed level of Government spending by £100m and be able to live with an increase of £50m.

Mr Thorneycroft then briefly announced that he stood by his views and must consider his position in the light of what the prime minister had said.

The next day, January 6, Mr Macmillan briefly announced to the Cabinet Mr Thornsycroft's resignation along with that of Mr Powell, Financial Secretary to the Treasury, and Mr Birch, Economic Secretary.

Response to change

Turning round the family company

Peter Marsh explains why Thomas Kerfoot, a small UK pharmaceutical company, needed a radical shake-up

Leigh Kerfoot, chairman of Thomas Kerfoot, a small, UK family-owned pharmaceutical company, has a simple explanation for the problem that afflicted his business in the early 1980s. "I didn't kick enough backsides hard enough and soon enough."

The difficulties are similar to those that confront many long-established, small companies which find they lack the management resources to handle fast-changing forces affecting their activities.

At the turn of the decade, Thomas Kerfoot resembled a beached whale. The company, founded in 1890, had had a long period of prosperity but was struggling to cope with the changes affecting the UK pharmaceutical industry.

Among these were fiercer competition by the multinationals which dominate the healthcare sector and the entry of other smaller companies into the the business of supplying generic or unbranded drugs which is Thomas Kerfoot's main activity.

In the 12 months to September last year, Thomas Kerfoot – which has about 300 products, most of them sold as tablets, and covering a range of basic medicines including antibiotics and anti-arthritis and heart formulations – made a loss of £500,000 on sales of £15m. "We were not far from being closed down," recalls Charles Savage, an experienced chemical industry executive recruited as Thomas Kerfoot's managing director in April 1987 to halt the decline.

Savage appears to be succeeding. The company turned in a pre-tax profit of about £1m in the year ending this September, on annual sales showing a 20 per cent upturn to £18m. Thomas Kerfoot is, says Savage, poised for further growth and is considering a plan to expand, probably at a cost of about £5m, its manufacturing facilities at Ashton-under-Lyne, near Manchester.

The plant, in which Thomas Kerfoot has been based since 1896, gives a hint of the company's past. It is a converted mill set in 14 acres of ground, some of which was landscaped earlier this century into an ornamental garden, complete with Edwardian follies.

Following Savage's takeover at the company, the garden is looking slightly less resplendent, the number of full-time gardeners having been cut from four to one as part of a drive to reduce overheads.

The company was founded by Thomas Kerfoot, Leigh Kerfoot's great grandfather. He was a pharmacist who decided to use his retail knowledge as a base from which to branch into drugs manufacture.

But while many pharmaceutical concerns set up in a similar fashion in the Victorian era were absorbed by the multinationals which took over much of the drugs industry after the Second World War, Thomas Kerfoot retained its family ownership and the feel of a small company.

Leigh Kerfoot, who is 52 and who has had a broad business background – including a training as an engineer and spells working for Eli Lilly and American Home Products, two US pharmaceutical giants – admits he might have let the company slide somewhat during the past few years.

"We did not have enough products and we were production driven rather than being organised around marketing," he says.

The difficulties were exacerbated by the changes in the late 1970s and early 1980s affecting the supply in the UK of generic drugs. These products, which add up to total sales in Britain of about £200m a year, are not covered by patent protection. They are chemically the same as the equivalent branded medicine but are often significantly cheaper.

In 1977, the UK introduced a new law which reduced patent protection for a number of branded medicines – which are made largely by big drugs companies such as Glaxo and Imperial Chemical Industries – and made it easier for new companies to enter the generics business. While this generally stimulated the market for generic products, it also intensified competition, both from the multinationals which were anxious to cling on to their markets for branded drugs and also from the new entrants into the generics business.

In the eneuing tussle, Thomas Kerfoot started to lose out to some of the more aggressive companies in the UK generics market, among them Generics (UK) and Harris Pharmaceuticals.

Savage, who had had spells in industrial consultancy as well as with Ciba-Geigy, the Swiss chemicals group, is a cheery 50-year-old who sees his job largely as one of raising morale and putting the company on a more businesslike footing.

One of his main objectives hae been to tighten up the links between Thomas Kerfoot'e manufacturing base and its customers, the latter being several thousand retail pharmacists scattered around Britain.

Here the company is unusual in that, whils mnch of the drugs industry sells its products via a relatively small number of wholesalers, Thomas Kerfoot largely deals with the retailers directly, with only 10 per cent of its sales handled via the wholesale route.

Savage admits that the arrangement is far from ideal. Profit margins on sales are higher due to the absence of payments to wholesalers, but there are extra costs becanse Thomas Kerfoot is forced to liaise with many different customers.

While Savage is attempting to smooth ths distribution arrangements by working up new wholesaling deals, he says that the company's operating methods make it essential to react quickly to demands from the retailers. A customer typically telephones with an order for items which it expects to get within 24 hours, the goods being distributed via delivery companies such as Securicor or TNT.

Thomas Kerfoot has put a lot of effort into improving production planning to ensure that requests of this kind can be met. "A lot of our customers look upon ns as a one-stop shop," says Savage. "If just one of the products they want is out of stock, they may well take the whole of their order elsewhere."

Planning has been improved to the point that virtually none of the company'e 300 products is out of stock; a year ago the figure was 25. Savage says the company is also quicker to change products which are either not selling well or becoming outmoded due to new medications entering the market. In the past year the company has dropped about 30 products and replaced them with others, a faster rate than in the early 1980s, says Savage.

Better planning has been supplemented by other initiatives. These have included:

● New management. Savage has reshuffled the senior people in the company, recruiting a new production director and promoting from within another man to take over the key job in charge of sales and marketing.

● Product licensing. In a drive to increase sales, Savage has agreed deals with other drugs companies, from both the branded goods and generics sectors, under which Thomas Kerfoot makes products on their behalf.

● Merchanting agreements. In other deals, Savage has agreed to use his sales force to market products made by other companies, increasing Thomas Kerfoot's product range and adding to sales.

● Reducing labour costs. The company has cut its staff from about 400 at the end of 1986 to 300, most of whom work in production-related areas and are employed at Ashton-under-Lyne.

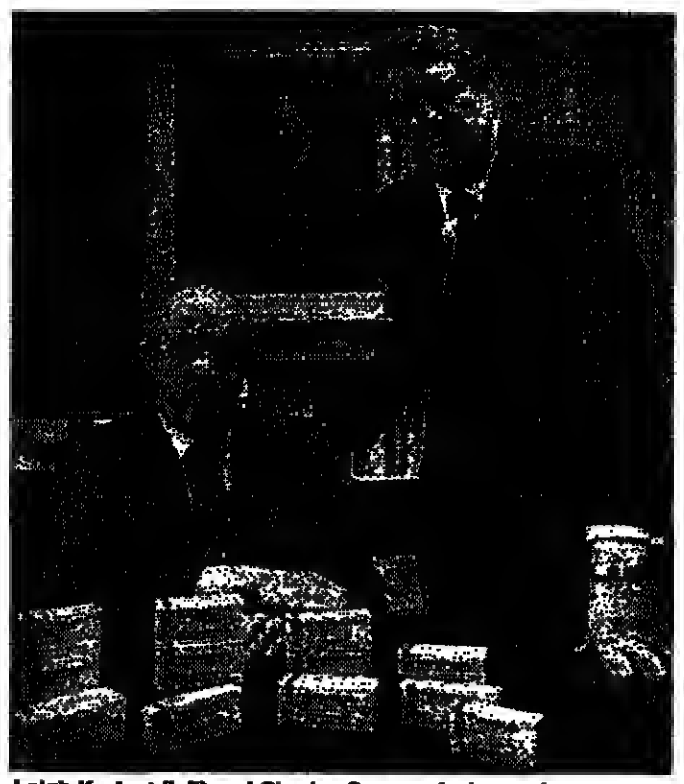
● A purge on overheads. As well as cutting the gardening staff, Thomas Kerfoot has put an end to first-class rail travel by its executives, all of whom have now to travsl second-class.

● Production initiatives. The company has a reputation for installing high-quality manufacturing machinery and Savage says he wants this to continue. Thomas Kerfoot recently spent £600,000 on two packaging machines and is considering a plan to revamp substantially its production facilities on its Ashton-under-lyne site.

● Exports drive. In the generic-drugs sector, in the UK and elsewhere, most national markets are self-contained with little trade between countries. Savage says he wants to change this and is exploring ideas about exporting to other countries in Europe.

As to the immediate future, the battle is still going on for market share in the UK's generics drugs business and there are signs that the pace might be too hot for some of the 20 or so companies which account for the lion's share of the sector.

It is widely expected that some may be driven from the industry as a result of the competition; Savage says his immediate aim is to ensure that Thomas Kerfoot is not among them and that its own business continues to thrive.



Leigh Kerfoot (left) and Charles Savage: facing up to a battle for UK market share in generic drugs

Limiting damage created by rising interest rates

While businesses of all size will feel the burden of high interest rates over the coming months, small ones are likely to suffer the most.

This stems from one of the unpleasant facts of life associated with modest size: lack of bargaining muscle.

An enduring problem for small companies is collecting debts from larger ones. When interest rates rise, companies tend to pay their bills later (thus reducing their need for working capital). Small companies are left financing their debts longer while waiting for payment.

The same is true when it comes to paying suppliers. Since any one small company is unlikely to be a major customer to suppliers, the suppliers are quick to apply the thumbscrews if cheques start to arrive late. The same thing would be unlikely to happen to a major company, since its suppliers would be more wary of losing its custom.

The squeeze is therefore applied from both sides. Debts are harder to collect and suppliers refuse to grant extended credit. The effect: a sharp increase in the overdraft, magnifying the already debilitating effects of higher interest rates.

How can small companies reduce the damage done by high interest rates? The following is a list of things to consider:

● You should not surrender to the squeeze described above without putting up a fight. Says Christopher Honeyman-Brown, in charge of the small business unit of accountants BDO Binder Hamlyn: "Most small companies underestimate themselves." They could bargain harder without fear of losing customers or suppliers.

● Are you collecting debts as efficiently as you might? There may be weaknesses in your system which encourage late payment. For instance, are you sending out invoices on time? Many proprietors of small firms put all their effort into sales and production and forget about the troublesome paperwork that goes with it, says Honeyman-Brown. Sending out an invoice as soon as a sale is completed, rather than days or weeks later, is well worth the extra effort.

Similarly, the system for chasing late payments and for making payments into your company's account should be reviewed to make sure it is working efficiently.

It may also be worth offering larger discounts to encourage earlier payment.

● The other major factor affecting working capital is stock. Is there anything you could do to reduce your stock levels without risking running out of essential items?

● If some or all of your sales are abroad,it may be worth taking out a foreign currency loan. Interest rates on most European currencies are well below 10 per cent.

Take a company which exports to West Germany and at any one time has outstanding invoices of DM50,000. If these sales are financed in deutschmarks then the interest rate will be lower than on a sterling loan (German interest rates are well under half those in the UK). The loan is always covered by future receipts, protecting the company from any exchange risk. There may be an added competitive advantage,in that the exporter may find it easier to secure orders by quoting in the local currency rather than sterling.

There is no advantage to a foreign currency loan if the company has no matching receipts in that currency, though. It simply swaps an interest rate cost for an open-ended currency risk.

Most high street banks offer foreign currency loans. In other respects, though, the banks can do little to offset the costs of high interest rates.

For small companies, there are only two types of loan: fixed or floating rate. Fixed rate loans became popular while interest rates were low (National Westminster Bank says that £2bn of the £7bn it has lent to small companies is at fixed rates), but are unlikely to appeal to many now.

Banks have no other rate-capping facilities available because, they say, small companies do not demand these things. Instead, all the banks promise to proffer an understanding ear to businesses which get into trouble due to high financing costs.

● More drastic action may be needed. Barry Baldwin, a former chairman of the Union of Independent Companies, says that many of the lessons for reducing working capital were learnt during the recession. There is little scope now for tightening the belt further.

The only option available to companies already operating efficiently is to scale back their expansion plans – or actually to scale back their business.

Companies faced with this decision should consider which parts of their business soak up least working capital, which are most profitable, and which are strategically important for them to remain in. Any business line not scoring high in one or more of these tests may be due for the axe.

These are the painful decisions many small companies will have to make over the coming months. As with all difficult decisions, they are better taken sooner rather than later.

Richard Waters

CONSTRUCTION CONTRACTS

Tilbury Group wins £21m orders

The TILBURY GROUP has recently been awarded contracts worth over £21m.

Tilbury Construction has orders worth £10.5m. Building projects account for over £8m and include a contract, valued at £2m, for the construction of 17 flats in Salcombe, Devon, for Aria Estates and a contract for offices, valued at £1.6m, for Mid Southern Water at Frimley Green, in Camberley.

Other contracts include a residential refurbishment, contract valued at £1.3m, at Plaistow Road, for the London Borough of Newham and the construction of 12 flats, contract valued at £1m, in Exeter for Intercounties Securities. Further orders include a contract, valued at £1m, for the construction of 29 flats in Efford, Plymouth, for The Anchor Housing Association.

Civil engineering contracts account for over £2.5m. A contract, valued at about £1m, was awarded by Chessington World of Adventure for a hanging roller-coaster ride called "Vampire in Transylvania."

Two contracts have been awarded by Wessex Water. One, valued at £475,000, is for an RC primary tank and two humus tanks at Wrington Sewage Treatment Works. The other, valued at approximately £150,000, is for an RC humus tank at Wells Sewage Treatment Works. A contract, valued at about £350,000, has been awarded by Erith Oil Works, part of the Unilever Group, at Erith, for a car park extension and lorry park.

Other contracts include an extension to Aylesbeare Sewage Treatment Works, Exeter, valued at about £250,000, for South West Water.

Westpile has been awarded orders worth £7.6m. A piling contract, valued in excess of £712,000, has been awarded for Citygrove Developments, at Great Yarmouth, and another piling contract, valued in excess of £426,000, has been awarded for Walter Craven, at the Claughton Brickworks.

Other projects include a CFA piling contract, valued in excess of £198,000, for a contiguous pile retaining wall at Richfort Street, Hammersmith, for City Gate Estates and a shell piling contract, valued in excess of £144,000, for retail buildings at Neath for Pearce Developments.

United Kingdom Construction and Engineering Co has been awarded orders worth £2.6m. They include a commissioning contract, valued at £200,000 for BP Chemicals at the Saltend A5 acetylene plant, and a contract, worth £1m, for LPG storage, at Avonmouth for BP Oil. Another contract, valued at £720,000, was received for off-site fabrication for the LLDPE (low linear density polyethylene) plant at Grangemouth for BP.

Upgrading London premises

Work has started on £2.5m alterations and improvements to the 18th century London headquarters of the Royal Society of Arts. The contract, awarded to TARMAC MANAGEMENT, is scheduled for completion in just over a year.

It involves improvements to the reception and cloakroom facilities on the ground floor, improving and extending conference facilities, and construction of an atrium at the rear of the society's John Adam Street headquarters.

The contract also includes the redevelopment of vaults to provide dining and reception areas, with seating for 200 people, and a 50-seat auditorium. Other work involves improving access and upgrading services in the building.

Retail parks and warehouse developments

HOLMES LEEDS has won three contracts worth £10.1m to build two retail parks at Reading and Great Yarmouth for Citygrove Developments; and a warehouse development at West Thurrock, Essex, for Versa Developments.

Children's World, Majestic Wines and Courts Furnishings will occupy the three units totalling 80,000 sq ft when the £2.4m Reading development is completed in February.

Work has already started on a 10-acre fenland site at Great Yarmouth where Holmes will build seven retail units totalling 11,148 sq metres in a £5.2m development due for completion in September.

The company has also been awarded a £2.5m contract to build two warehouse units totalling 9,290 sq metres at West Thurrock Industrial Estate by February.

£21.6m workload for Lilley company

LILLEY CONSTRUCTION, the Glasgow-based building and civil engineering subsidiary of the Lilley Group, has been awarded contracts totalling £21.6m.

The largest of the awards is a £3.2m contract to carry out building works on Phase III at St Fergus for Total Oil Marine. In Edinburgh, Lilley has secured a £2.1m contract, for the Scottish Development Department at Edinburgh Castle.

Other awards in Scotland include a £2.2m contract at Albert Quay, Aberdeen for the Aberdeen Harbour Board; the conversion of Castlebay Pier, Isle of Barra, to a roll-on/off facility on behalf of Caledonian MacBrayne; works including drainage, roads and car parking at Glasgow Airport for Glasgow Airport and a £1m term contract at ICI Grangemouth.

Lilley has been awarded a £2.6m refurbishment contract at Eaton Gate, London, by Grosvenor Estate Belgravia. The company has also won a £1.7m contract for the construction of 4.5 km sewer for Horsham District Council who are acting as agents to the Southern Water Authority.

Further awards in England include an extension to a BUPA hospital in Portsmouth; refurbishment at Havant Leisure Centre for the Borough of Havant; and construction of offices and laboratories for Full Europe Services.

Extending station roof

A £5m-plus order has been won by R WATSON & CO (CONSTRUCTIONAL ENGINEERS) for structural steelwork for the projected Liverpool Street Station redevelopment.

The contract consists of a major extension to the recently renovated station roof in the original Victorian style covering platforms and a large concourse area. The structure will comprise lattice-arched main members spanning up to 33 metres, with infill cast iron filigrees to match the 100-year-old trusses.

A network of latticed purlins, rakers and lantern arches will span the main principals, forming interconnecting naves and transepts and providing support to the part-glazed/part-clad roof members. Watson will start erecting the roof early in 1989.

The work is subject to severe restrictions, with the station remaining fully operational and 250,000 people passing through each day. Erection will be phased to suit ongoing demolition work within the site area. Crash decks have already been installed above passenger thoroughfares to enable construction to take place.

Robert Watson & Co is part of Fairclough Engineering, a member of the AMEC group.

Cambridge research centre

SIR ROBERT McALPINE & SONS has been awarded a £3.75m contract by Milton Park Investments, a wholly-owned subsidiary of Trafford Park Estates. The contract covers the second phase of the Westbrook Centre, an office development/research centre in Cambridge.

The three-storey building will provide 3,500 sq metres of floor space and will incorporate undercroft car parking. Work includes the installation of two lifts, central heating and alterations to roads and landscaping.

DIARY DATES

FINANCIAL

YESTERDAY
DIVIDEND & INTEREST PAYMENTS-
Beezer 0.67% Cm. Red. Prf. 4.335p
Benson Group 0.7p
British Empire Sec.& Gen.Tst. 10¾% Deb. 2011 5⅜pc.
British Sugar 10¼% Red. Deb. 2013 5.3625pc.
Bulmer (H.P.) 8½% Cm. Prf. 4.75p
Do. 8¾% 2nd. Cm. Prf. 4.375p
Burnd 7% Cv. Un. Ln. 1995/97 3½pc.
Cambridge Water 8% Red. Prf. 1998 4p
Do. 7% Red. Prf. 1989 3.5p
Do. 10% Red. Deb. 2004 5⅛pc.
Coats Viyella 3p
DDT Grp. 1.2p
East Worcs. Water 7% Red. Prf. 1990 3.5p
Do. 12½% Red. Deb. 1994/96 6¼pc.
English Electric 3½% Cv. Red. 1986/91 3½pc.
Felixstowe Dock & Railway Prf. 3.25p
First Dub. Finance 11.125% Sec. Gtd. Deb. 2018 5.5625pc.
Flexon 1.5p
Hewitt 4.55% Cm. Prf. 2.275p
Hanson 7% Cm. Cv. Red. Prf. 3.5p
Manchester Ship Canal 1st. 3½% Perp. Mtg. Deb. 1¾pc.
Do. 4% Perp. 1st. Mtg. Deb. 2pc.
Do. 4% Perp. 2nd. Mtg. Deb. 2pc.
Do. 3½% Perp. Deb. 1¾pc.
Do. 4% Perp. Deb. 2pc.
Mid Kent Water 9⅜% Red. Deb. 1997/99 4[illegible]pc.
Do. 12% Red. Deb. 1993 6pc.
Do. 12¼% Red. Deb. 2005 6⅛pc.
Do. 12¼% Red. Deb. 1995 6⅛pc.
Pittard Garnar 1.75p
Do. 8½% Cm. Prf. 4.75p
Portals Hldgs. 4½% Cm. Prf. 2.1p
Rotaflex Grp. N/Vtg. Red. Prf. 2.625p
Rickmansworth Water 4.2% Red. Prf. 1987/88 1.2216p
Do. 4% Mtg. Deb. 2007/28 2pc.
Rights & Issues Inv. Tst. 3.675p
TVS Entertainment 7.4p Cv. Cm. Red. Prf. 2008 3.0615p
Tallon Hldgs. 9% Cm. Prf. 4.5p
Tendring Hundred Water 8¾% Red. Prf. 1998 4.375p
Do. 12% Red. Deb. 1993 6pc.
Thomson Org. 4.72% Cm. 1st. Prf. 2.36p
Do. 21.7% Cm. Prf. 2.7125p
Do. 5% 1st. Mtg. Deb. 1¼pc.
Do. 7¼% Un. Ln. 1987/92 3⅝pc.
Thomson T-Line 5.75p Cv. Cm. Red. Prf. 2.875p
Tops Estates 10¼% 1st. Mtg. Deb. 2011/16 5⅛pc.
Trevian Hldgs. 1.25p
West Kent Water 8¾% Red. Prf. 1987/89 4.375p
Do. 12¼% Red. Deb. 1994/96 6⅛pc.
York Water 10% Red. Deb. 1993/95 5pc.
Do. 11.80% Red. Deb. 1995/97 5.9pc.
Do. 10% Red. Deb. 1994 5⅛pc.
TODAY
BOARD MEETINGS-
Finals:
First National Finance Corp.
Interims:
Kleinwort Benson Gilt Fund
N.E.A. Hldgs.
DIVIDEND & INTEREST PAYMENTS-
ABB Kent 1.5p
ABS Kent 4½% Cm. Prf. 1.575p
Alida Hldgs. 9.25% Cm. Red. Prf. 2009/13 2.66p
Appleby Westward 2p
Armstrong Equipment 6½% Cm. Prf. 2.275p
Asprey 8¾% Cm. Prf. 4.375p
Assoc. Fisheries 4¼% Cm. Prf. 1.5625p
Do. 8% Cm. Prf. 1.4p
Avdel 0.8p
BICC 4.75p
Do. 5½% 2nd. Cm. Prf. 1.925p
Do. 6% 1st. Cm. Prf. 2.1p
BM Grp. 4½% Cm. Red. Prf. 2.3p
Baron Transport 5p
Do. 4% Cm. Pig. Prf. 1.4p
Baxter Intl. 12.5cts.
Beezer 4.25p
Black Arrow Grp. 1p
Blue Circle 7⅜% Cv. Cm. Red. Prf. 3.8125p
Booker 5p
Boosey & Hawkes 5½% Red. Cm. 1st. Prf. 1.925p
Do. 7% Cm. Prf. 2.45p
Bournemouth & District Water 2.8% Prf. 1.4p
Do. 9% Red. Prf. 1987/89 4.5p
Do. 10¼% Red. Deb. 1995 5⅛pc.
Do. 12¼% Red. Deb. 1995 6⅛pc.
Brent Chemicals Intl. 9% Cm. Red. Prf. 3.3288p
Brent Walker Grp. 4p
Bridon 6% Cm. Prf. 1.05p
Brit. Bulmer-Gundry 6% Cm. Prf. 2.1p
Bristol Water 4¼% Perp. Deb. 2⅛pc.
Do. 4% Perp. Deb. 2pc.
Do. 3½% Perp. Deb. 1¾pc.
British Columbia Electric 4% 1st. Mtg. Bds. Ser. F 1961/91 2pc.
Bromsgrove Inds. 1p
Business Mortgages Tst. 8.6% Cum. Prf. 4.3p
CI Grp. 5.1p
Chamberlain Phipps 1.8p
Chester Water 8% Red. Prf. 1992 4p
Clayton, Son & Co. 2.2p
Cook (William) 2.75p
Corah 6% Cm. Prf. 2.1p
Courtney, Pope 6% Cm. Prf. 1.05p
Credit for Exports Un. Ftg. Rate Nts. 1993/92 $418.79
Dalgety 9p
Electrocomponents 1.47p
FII Grp. 5.75p
Feedex Agricultural 0.5p
Fitzwilton 1p
Do. 6¼% Cm. Prf. 2.21p
Folkestone & District Water 7% Red. Prf. 1991 3.544p
Foseco 4.2p
Glaxo Hldgs. 16p
Govett Strategic Inv. Tst. 2.9p
Greyhound Corp. 33cts.
Hamilton Oil Ser. A Prf. 46.75cts.
Harrisons Malaysian Plants. 6sen
Hazlewood Foods 7.5% Cm. Pfg. Prf. 2.625p
Hestair 3p
High-Point 3.75p
Inchcape 2.75p
Ingall Inds. 8% Un. Ln. 1986/91 4pc.
Johnson Grp. Cleaners 7.5p Cv. Cm. Red. Prf. 4.17125p
Do. 9% Cm. Prf. 3.15p
LWT 3.68p
Lawrence (Walter) 2p
Locker (Thomas) 0.373p
Lyles (S.) 2p
Do. 11% Cm. Prf. 5.5p
Martin (Albert) 1.5p
Martin Intl. Props. Grn. Red. Cv. Prf. 4.5p
Mid Kent Water 6% 1.5125p
Mid-Southern Water 2.45% Perp. Prf. 1.225p
Do. 8% Red. Prf. 1990 4p
Do. 6.25% Red. Prf. 1991 3.125p
Do. 7% Red. Prf. 3.5p
Morgan Crucible 4.8p
Muddow (A.&J.) 4.699p
Nest 2.7p
Normans Grp. 5% Cm. Prf. 2.5p
Do. 8¾% Cv. Un. Ln. 1999/2004 4⅜pc.
Northern Eng. 1.5p
Peek 0.3p
Property Sec. Inv. Tst. 8% Cm. Prf. 4p
RTZ Corp. 3.325% A Cm. Prf. 1.6625p
Do. 3.5% B Cm. Prf. (Reg) 1.75p
Do. 3.5% B Cm. Prf. (Br) 1.75p
Raine Inds. 2p
Rand Mines 345cts.
Sears, Roebuck 50cts.
Sharp & Law 6.5% Cm. Red. Cv. Prf. 4.225p
Silentnight Hldgs. 2.25p
Silkolene Lubricants 5p
Smallbone [illegible] 0.75p
Stewley Inds. 1.3p
Temple Bar Inv. Tst. 4.2% Cm. Prf. 2.1p
Tottenham Hotspur 4p
Towles 5% A Cm. Prf. 0.875p
Town Centre Sec. 1p
Turriff Corp. 3.5p
Unilever 5% 1st. Cm. Prf. 1.75p
Do. 7% 1st. Cm. Prf. 2.45p
Do. 8% 2nd. Cm. Prf. 2.8p
Do. 20% 3rd. Cm. Prf. 1.75p
Unit Grp. 2.5p
WPP Grp. 5.4p
Western Motor 5½% Cm. Prf. 1.925p
Williams Systems 0.25p
York Water 7½% Red. Prf. 1997 2.2171pc.
TOMORROW
COMPANY MEETINGS-
Wade Potteries, Manchester Pottery, Greenhead Street, Burslem, Stoke-on-Trent, 12.00
BOARD MEETINGS-
Interims:
Fleming Technology Inv. Tst.
Hollas Grp.
DIVIDEND & INTEREST PAYMENTS-
African Dev. Bank 11.125% Ln. 2010 5 9/16pc.
Airflow Streamlines 2p
Allied London Props. 1.85p
Budgens 2p
Christy Hunt 1.28p
Control Sec. 0.375p
DAKS Simpson 7.95p
Do. A N/Vtg. 7.95p
De La Rue 3.25p
E-Systems 12.5cts.
Etam 1.7p
Finlay (James) 2p
Five Oaks Invs. 7% 2nd. Cm. Prf. 4.9p
Frost Grp. 4p
General Instrument Corp. 12.5cts.
Globe Inv. Tst. 1.61p
Guinness 5¾% Cv. Cm. Red. Prf. 2.875p
Henderson Administration Grp. 7p
IWP Intl. 1.5p
London & Assoc Inv. Tst. 0.15p
McKechnie 8.45p
Maxwell Communication 5p
Murray Smaller Markets 0.65p
Powell Duffryn 6p
Robertson Grp. 1.1p
Silvermines 1.5p
Sims Food Grp. 2.4p
Slingsby (H.C.) 2p
Ulster Television 2.75p
Wade Potteries 3.5p
THURSDAY JANUARY 5
COMPANY MEETINGS-
Hardanger Properties, Waldorf Hotel, Aldwych, W.C., 12.00
BOARD MEETINGS-
Interims:
AMI Healthcare
DIVIDEND & INTEREST PAYMENTS-
Abbey National Bldg. Society Ftg. Rate Nts. 1993 £306.56
Amber Indl. Hldgs. 3.75p
Annuities 2¾% 1⅜pc.
Do. 2½% 1¼pc.
Bankers Inv. Tst. 4% Perp. Deb. 2pc.
Barclays Bank Und. Ftg. Rate Prim. Cap. Nts. $421.80
Burmah Oil 7p
Cater Allen Hldgs. 5.37p
Consolidated 2½% 1¼pc.
Croydon Corp. 6½% 1¾pc.
Fletcher Challenge 16% Spec. Prf. 17.6cts.
General Mining Union Corp. 6% Cm. Prf. 6cts.
Granyte Surface Coatings 1.1p
Hogg Robinson 2p
Hunting Assoc. Inds. 9½% Cv. Un. Ln. 2003/08 4¾pc.
Hunting Petroleum Services 10% Cv. Sub. Un. Ln. 1997 5pc.
Low (William) 11.5p
Metropolitan Water Staines Res. Joint Comm. 3% Gtd. Deb. 1½pc.
NMC Grp. 1p
Nat West Bank 12½% Sub. Un. Ln. 2004 6¼pc.
New England Props. 10% Cv. Un. Ln. 1990 5pc.
Reckitt & Colman 9.15p
Regalian Props. 1.5p
Runciman (Walter) 4.5p
Scottish American Inv. 0.86p
Security Pacific Corp. Sub. Ftg. Rate Nts. 1992 $226.81
Shaw (Arthur) 1.1p
Thames Television 4.75p
Tubular Exhibition 0.4p
Value & Income Tst. 0.725p
Warburg (S.G.) Ftg. Rate Nts. 2006 $421.67
Waste Mngmt. 12cts.
Williamson Tea Hldgs. 10p
Yule Catto 11½% Cm. Red. Prf. 1998/2003
FRIDAY JANUARY 6
COMPANY MEETINGS-
Barbican Hldgs., Grosvenor Hotel, Buckingham Palace Road, S.W., 10.00
Diploma, Great Eastern Hotel, Liverpool Street, E.C., 11.00
Fenner (J.H.), Royal York Hotel, Station Road, York, 12.30
Jessups, Institute of Chartered Accountants, Chartered Accountants Hall, Moorgate Place, E.C., 12.00
M.M.T. Computing, Chesterfield Hotel, Charles Street, Mayfair, W., 2.00
Radio Clyde, Clydebank Business Park, Clydebank, 12.00
BOARD MEETINGS-
Interims:
Thornton Oriental Income Fd.
Travis Perkins
DIVIDEND & INTEREST PAYMENTS-
Allied Partnership Grp. 0.75p
Ashley (Laura) 0.85p
Australia Inv. Tst. 3.4p
Bailey (Ben) Construction 1.6p
Baird (William) 2.85p
Beckman (A.) 3.78p
Blue Circle Inds. 6¾% Do. Ln. (1975 or Aft) 3⅜pc.
Bradford & Bingley Bldg. Soc. Ftg. Rate Nts. 1988 £307.19
Bradford Property Tst. 6.5p
British & Commonwealth Hldgs. 4p
British Inv. Tst. 5.5p
British Shoe Corp. 7% Un. Ln. 1985/90 3½pc.
Browning-Ferris Inds. 14cts.
Cakebread, Robey 0.8p
Do. A N/Vtg. 0.8p
Centex Corp. 6.25cts.
Colman (E. Alec) Invs. 8% Un. Ln. 1991/96 4pc.
Courtaulds 5% Cm. 1st. Prf. 1.75p
Do. 5½% Un. Ln. 1994/96 2¾pc.
Diploma 5.5p
Dunhill Hldgs. 1.25p
EMAP 1.43p
Eleco Hldgs. 4p
Equity & General 0.5p
Evans of Leeds 2.15p
Findhorn Fin. 8½% Un. Ln. 1986/91 4¼pc.
Fisher (Albert) 1.25p
G.T. Mngmt. 1.25p
Gartmore American Sec. 0.8p
Grampian Television N/Vtg. A 0.8p
Guardian Royal Exchange 3.5p
Hambros Inv. Tst. 2p
Hardanger Props. 15p
Highland Electronics 2p
Hobson 0.25p
Jessups 4.25p
Joseph (Leopold) 3.1p
Just Rubber 0.8p
Linread 7¾% Deb. 1989/93 6⅞pc.
Lon. & Prov. Shop Centres 10% 1st. Mtg. Deb. 2026 5pc.
Medminster 2.5p
Menzies (John) 3p
Morgan Crucible 7½% Cv. Cm. Red. Prf. 3.75p
Do. 9½% Deb. 1995/2000 4¾pc.
NESCO Invs. 1p
Priest, Marians 3.2p
River & Merc. Tst. 1.4p
Scottish National Tst. Inc. 2.4p
Smaller Co's Int. Tst. 0.75p
Smith (W.H.) 6¼% Red. Un. Ln. 2⅛pc.
Do. 8% Red. Deb. 1987/92 4pc.
Do. 7¾% Red. Un. Ln. 1988/93 3⅞pc.
Standard Chartered Und. Prim. Cap. Ftg. Rate Nts. (Ser.4) $416.56
TR Australia Inv. Tst. 2.25p
TR Property Inv. Tst. 0.35p
Tarmac 7½% Deb. 1987/92 6¾pc.
Time Products 2.5p
United Biscuits 4.8p
Walker (J.O.) 3p
Whitbread A Lim/Vtg. 3.25p
Do. B 3.25p
Do. 7¾% Un. Ln. 1996/2000 6⅞pc.
Do. 10½% Un. Ln. 2000/05 5¼pc.
Whitbread Inv. 3.05p
Yale & Valor 3.45p
SATURDAY JANUARY 7
DIVIDEND & INTEREST PAYMENTS-
Fashion & General Inv. 8p
House of Fraser 8% Mtg. Deb. 1988/91 4pc.
M. & G. Fund of Inv. Tst. 2.9p
Memory Computer 7.8% Cv. Cm. Red. Prf. 1994/98 3.9p
Queens Moat Houses 7% Cv. Cm. Red. Prf. 3.5p
Rand Mines Props. 20.66562p
Scottish & Merc. Inv. Tst. 1.4p
Do. A N/Vtg. 1.4p
SUNDAY JANUARY 8
DIVIDEND & INTEREST PAYMENTS-
Inter-American Dev. Bank 12½% Ln. 2003 6¼pc.

Trade Fairs and Exhibitions: UK

Current
Model Engineers Exhibition (0442 41221) (until January 8)
Wembley Centre

January 4-15
London International Boat Show (0932 854511)
Earls Court

January 5-8
Holiday and Travel Fair (021-780 4171)
NEC, Birmingham

January 7-12
International Toy Fair (01-226 6653)
Harrogate

January 12-15
Northern Travel Fair (01-891 5061)
G-Mex Centre, Manchester

January 15-18
International Lightshow Exhibition (0588-4658)
Olympia

January 17-19
International Contract Flooring Exhibition (021-705 6707)
Olympia

January 20-22
Daily Mail International Holiday Exhibition (0895-72277)
Alexandra Palace

January 24-26
Hirex Exhibition (01-660 8008)
Wembley Centre

January 28-February 1
British International Toy and Hobby Fair (01-701 7127)
Earls Court

February 5-7
Fashion Fabric and Sewing Fair (0422 51215)
Barbican

February 5-8
International Spring Fair (01-855 9201)
NEC, Birmingham

February 7-9
Textile & Technology Exhibition (01-385 1200)
G-Mex Centre, Manchester

February 9-12
Crufts Dog Show (01-493 7838)
Earls Court

Overseas Exhibitions

January 11-14
Toy Show (01-930 7955)
Hong Kong

January 15-19
International Food Fair of Scandinavia (Copanhagen 518811)
Copenhagen

January 20-23
Leather and Suede Fashion Exhibition – PIELESPANA (0494-729406)
Barcelona

January 23-26
Middle East Electronic Communications and Computer Graphics Shows and Conference (01-486 1951)
Bahrain

January 29-February 1
Irish Crafts Trade Fair (Dublin 884939)
Dublin

January 29-February 1
International Confectionery, Chocolate and Biscuit and Pastry Trade Exhibition (01-225 5566)
Paris

February 10-13
International Spring Trade Fair of Household Goods, Crystalware, Ceramics, Silverware & Gifts – MACEF (01-242 7289)
Milan

Business and management conferences

January 9-13
Management Training Consultants: Techniques of supervisory and management training for trainers (0533-627062)
Leicester

January 10-12
AD 2000 Management Services/ Indevo: Business location strategy (01-977 3474)
The Barbican Centre

January 11
CBI Employee Relocation Council/Price Waterhouse: Moving experiences – the results of the Price Waterhouse survey of relocated organisations (01-379 7400)
Centre Point, London

January 12
IPM: Managing human resources (01-946 9100)
Chelsea Hotel, London

January 15-18
National Retail Merchants Association: annual convention and show (US 212-244 8780)
New York

January 17-18
Institute for International Research: Corporate identity and design management (01-434 1017)
CFS Conference Centre, London

January 19
Management Forum: Food and trading law developments (0483-570099)
Cafe Royal, London

January 19-20
The Royal Institute of International Affairs/The Middle East Institute: The Iranian revolution-10 years later (01-930 2233)
Chatham House, London

January 23-25
IRS Training: Complate employment law (01-354 5858)
Royal Automobile Club, London

January 24
IPM: Pressure at work (01- 946 9100)
The Swallow International Hotel, London

January 30
IBC: Risk management planning and systems (01-236 4080)
City Conference Centre, London

February 2
Tolley Conferences: Practical VAT annual conference (01-680 5682)
The London Press Centre

February 6-8
Frost and Sullivan: Taking full advantage of computer software packages (01-730 3438)
London

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there have been no changes to the details published

APPOINTMENTS

Associated Newspapers names new board

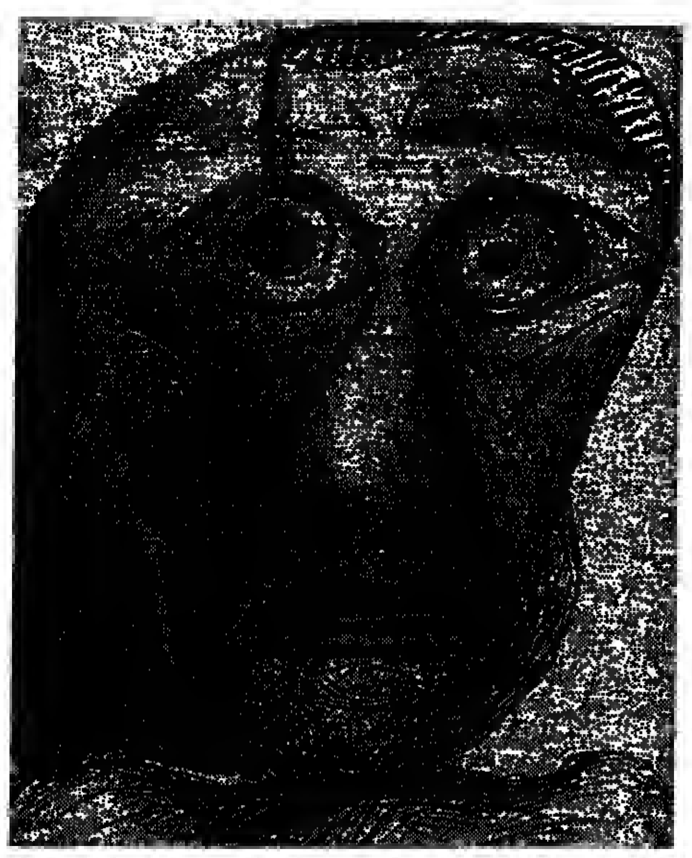
■ On completion of the offer by Daily Mail & General Trust (DMGT) for Associated Newspapers Holdings a new company has been formed, ASSOCIATED NEWSPAPERS. Mr C.J.F. Sinclair has been appointed managing director of DMGT and group chief executive, and Mr P.J. Saunders becomes finance director of DMGT. Associated Newspapers will consist of four divisions: the Daily Mail, The Mail on Sunday, the Evening Standard, and Harmsworth Quays. The following promotions take effect from January 1: Mr W.J. Pressey, managing director of The Mail on Sunday, becomes managing director of the Daily Mail; Mr G.R. Mellis, deputy managing director of the Evening Standard, becomes managing director; and Mr S.A. Martin, financial director of Mail Newspapers, becomes financial director of Associated Newspapers. The board of Associated Newspapers will be: Lord Rothermere, chairman; Mr C.J.F. Sinclair and Sir David English, joint deputy chairmen; Mr H.C. Hardy, managing director; Mr S.A. Martin, financial director; Mr P.J. Saunders; the managing directors of the four divisions referred to above; and the editors of the three titles (including Sir David for the Daily Mail).

■ Mr Stewart Hamilton has been appointed a director of CITY MERCHANTS BANK.

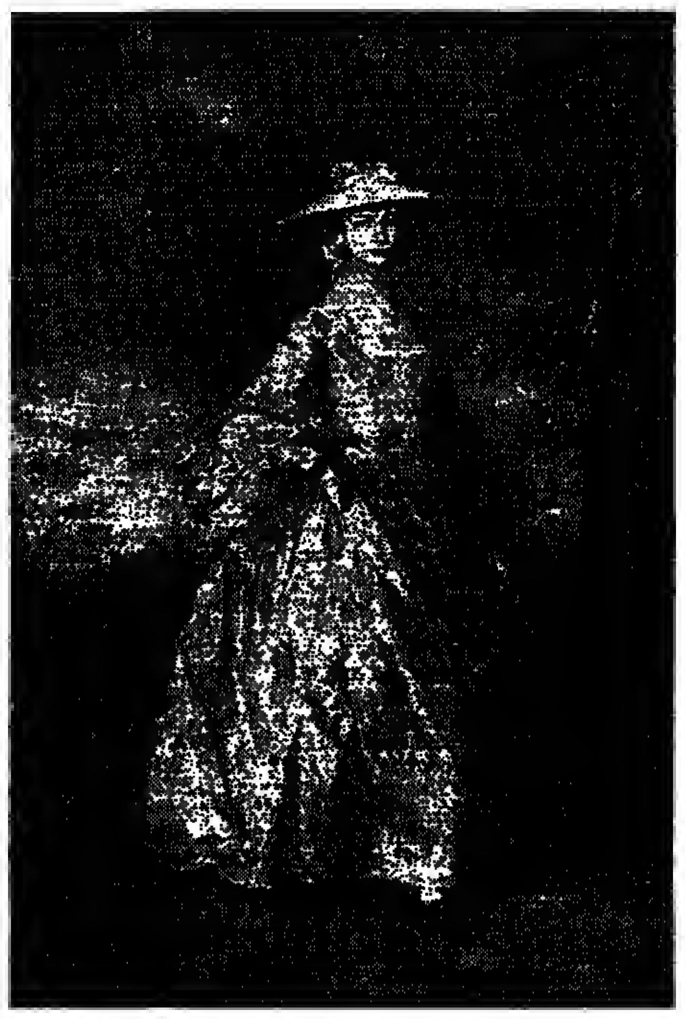
■ Mr Edwin O. Siebert has retired as chairman of SIEBERT/HEAD, part of The WCRS Group. Mr Richard Head takes over as chairman, and remains managing director for the time being. Ms Susan Frogley becomes company secretary.

ARTS

Venice: The Stonemason's Yard, by Canaletto



Self-portrait drawn by Picasso nine months before his death



Countess Howe, by Thomas Gainsborough

Art: **William Packer** assesses the past 12 months at home and abroad

Rich and complex truths

No review of the arts to the past year is likely to uncover major trends or departures from established ways, let alone profound new truths. Stars may rise here and there but the firmament remains much as it was. For the visual arts 1988, although enjoyable, various and interesting, proved no exception to the general rule.

Generally, the mistake is to expect too much, rather than to take what is offered on its merits. Another error is to look for a theory or a pattern or a principle rather than at art for itself.

The apologist for the new and the critical revisionist may both cram the work they confront into the fixed mould of their hopes or prejudices, which, as commuters on the Northern Line know well, makes for a tight fit.

Equally, the intelligent outsider, who hates totally the thought of modern art, need hardly bother to test a truth so well-established against his actual experience.

Abstraction is dead, we hear. Figurative painting and sculpture revived, which, if true, would be a handy stick with which to belabour modernism and all its works. But it is not true. Such simplicities seldom are.

What is true is that in any year, in any age, there will always be more bad work produced than good. The simple test we should set ourselves is to distinguish between the two.

The plea is for an open mind tempered by sympathetic, educated scepticism in the first place, to be followed by serious interest and enjoyment that are both imaginative and unashamedly physical.

The truth is, of course, too rich and complex to set out here but a hint or two may be helpful. We have heard a lot lately of post-modernism, especially in relation to architecture but also to art, which carries with it an unfortunate sense of the reactionary.

A better term is "post-avant-gardism", which is a nicely legitimate nonsense. The point is that though there may now be no clearly identifiable avant-garde to celebrate and follow, this is not to say the achievements of successive avant-gardes, even up to the 1970s, should be denied.

Indeed the territory into which they broke is there to be colonised and developed. If the present period in the visual arts is to be characterised at all, it is one of generous plurality.

In architecture it still seems to be a case of "If you are not with me, you are against me", of narrow alternatives. But in the visual arts at large, abstraction, figuration, conceptualism, expressionism, constructivism, surrealism, symbolism, classicism, dada, the lot, are all there together, available to the artist as legitimate, educated choices.

It seems to me to be a healthy state of affairs, and happily there is no single voice or influence to take credit for what is a natural and inevitable development. The river runs down to the sea, steep, narrow and fast at first and full of energy, but as it matures, so it slows down, broadens its stream and begins to wander. At last the delta offers many channels by which to reach the sea.

There are, of course, several things to say of the art of 1988 and events to mark. Some of the most memorable shows have been abroad, and each of three concurrent in Paris in the spring would have been outstanding in the decade — the great Degas retrospective at the Grand Palais, van Gogh in Paris at the Musée d'Orsay, and "Les Demoiselles d'Avignon" at the Musée Picasso.

Yet 1988 was also a good year for art in Britain. We had Early Cezanne and now the graphic work of Toulouse-Lautrec at the Royal Academy, Rembrandt at work at the National Gallery and, most extraordinary of all, the Late Picasso at the Tate.

Double Portrait, by Steven Williams; commended in the 1988 John Player Portrait Awards

On the British side too, we did very well for ourselves. David Bomberg at the Tate, the opening at last of the Tate in the North at Liverpool, Paul Nash at the Imperial War Museum, Henry Moore at the Royal Academy and the Lucian Freud retrospective at the Hayward, were all in their different ways signal confirmation of the standing of British art in the 20th century, at a truly international level, second to none.

We had David Hockney at the Tate and "Exhibition Road", a celebration of painting from the Royal College in this century, both fascinating.

At the Whitechapel shows of the sculpture of Michael Sandle in the summer, then of Richard Deacon this winter, were reminders of the extraordinary variety and strength of British sculpture as a national school and international influence.

The point was emphatically confirmed at the Venice Biennale in the summer when, though he failed narrowly to win any prize, Tony Cragg won a manifest *success d'estime* for his show in the British pavilion.

Another notable success abroad was achieved in remarkable circumstances by Francis Bacon, whose succinct retrospective went, by Russian request, to Moscow in the autumn. It was initiated largely by personal, even chance contact, with James Birch, the early go-between, and arranged at short notice by the British Council and Marlborough Fine Art.

Self-portrait by Rembrandt, aged 34

That it hardly said much that was new to us of Bacon's output was not the point. The Russians were curious to see work they knew only by repute and reproduction, and they responded to it with impressively open minds.

With such contacts established, we can only hope more will follow. But it would be unfair and unkind to expect too much of the Russians themselves too soon. They, too, must be allowed time to assimilate their new freedoms and opportunities. For the whole of modern art as it is, rather than as they imagined it to be, is not to be absorbed in a week or a month.

As the western art of the 20th century is at last allowed to be shown without critical caveat, so the work of Russian artists is brought out of the studio and the cupboard to be shown on its merits.

This can only be beneficial, so long as the difficulties are understood. British dealers are already active in showing such work here and the Riverside Studios has already arranged contacts between artists. Just before Christmas, Roy Miles put on an impressive exhibition of Russian painting up to the 1970s, with a fully documented catalogue, which gave the lie to the belief that all Russian art was either socialist realism or suppressed modernism. Early this year the Thumb Gallery is to show examples produced by a group of young Russian painters working now. We may indeed come to see this Russian thaw as a true turning point.

In Britain the year's one obvious turning point came with the change in the directorship of the Tate. It is one of the world's great galleries, with the definitive historic British collection on the one side and, on the other, one of the most balanced and comprehensive collections of international modern and contemporary art anywhere.

That this should be so is largely the achievement of successive directors who, by their personal qualities, interests and foibles, shifted or corrected the emphases and imbalances of the collections.

Yet it is always open season at the Tate, and Sir Alan Bowness, who took over in 1980, had as rough a ride as any. His luck was to enjoy a period of conspicuous official retrenchment and apparent indifference, with the annual purchase grant pegged throughout at under £2m, a sum which was always inadequate and is now ludicrous.

Yet the collections have continued to grow significantly and the Tate itself to develop and expand. The Clore Gallery for the Turners opened in 1987, and last spring it was the turn of the Tate in the North, in Liverpool's splendid Albert Dock, which was Sir Alan's particular initiative and remains his monument.

Now it is Nicholas Serota's turn and already, after a mere four months, some of our more volatile critics are sharpening their pens. I do not think he should worry yet, for the abuse can only be prejudiced or premature.

In his 12 years at the Whitechapel, Serota showed himself to be a brilliant maker of exhibitions and a gifted fund-raiser which are hardly disqualifications for office.

Of course not all his exhibitions were great, nor all his artists worth too much attention, yet the balance falls heavily in his favour. Two examples are enough: the two-part survey in 1981 of British sculpture in the 20th century, which was a show of historical importance; and the show of Max Beckmann's triptychs, which remains for me one of the great exhibitions of my life.

The emphasis at Whitechapel falls naturally on the particular and the contemporary. At the Tate the scope is somewhat broader. Serota will wish to make certain changes and I know of at least two he intends to make. The first is to reintegrate the Modern British with the Modern collections at large; the second to return the huge central galleries of the Tate to the magnificent open halls they once were, perfect as they are for the display of the largest sculptures. Neither proposal seems unreasonable to me.

There are some gloomy things to say, but I shall not dwell on them. We have only to look to Paris, to the great remodelling of the Louvre with its Pei-ramid, and to the Musées d'Orsay and Picasso, to see the social value set on Art and all its works by another supposedly civilised nation.

We look on our own National Gallery extension being built by private funds, and a V&A with a leaking roof and unable even to meet its wages bill, and despair.

As for our art schools, I say only that the despoliation of them in general, and their Fine Art Departments in particular, continues apace, as it has under successive administrations these 20 years — only now, with demand undiminished, there is rather less to trim. The cynicism and downright mendacity of our public servants, that has marked this petty triumph, beggars belief.

Finally, without comment, are some of the shows that gave me particular pleasure in the past year: Joe Tilson and Allen Jones at Waddington; Dennis Creffield's "Cathedrals" and Nerys Johnsona's "Moments of Being", toured by the South Bank Board; David Remfry and Elizabeth Blackadder at the Mercury; Andy Goldsworthy at Fabian Carlsson; "Angry Penguins" at the Hayward; Leon Kossoff and Richard Long at d'Offay; Edward Middleditch, Paula Rego and Rory McEwen at the Serpentine; Jeffery Camp and Norman Adams at the RA; modern sculpture in the gardens of Jesus College, Cambridge and in the Forest of Dean; the Bergrruen Collection in Geneva and the Samuel Collection at the Barbican; Harry Holland at Thumb; Peter Coker at Gallery 10; Nicola Hicks at Flowers East and Artist of the Day at Angela Flowers; John Hubbard at Fischer - (*that's enough, Ed.*).

ARTS GUIDE

December 30-January 5

OPERA AND BALLET

London

Royal Opera, Covent Garden. A new English-language version of Die Fledermaus by John Mortimer is introduced to the house in John Cox's (also new) staging, with a first-rate cast (including Carol Vaness, Thomas Allen, Dennis O'Neill and Lillian Watson) and Adam Fischer as conductor. Handel's sublime Semele returns in the overdressed 1982 John Copley production, with Charles Mackerras as conductor and Yvonne Kenny and Anthony Rolfe Johnson heading the cast, all in cracking form.

English National Opera, Coliseum. The 1977 production of La Bohème is revived with a cast headed by Rosamund Illing, David Rendall, and Nancy Gustafson. The ENO's new Rimsky-Korsakov rarity, Christmas Eve, produced by David Pountney (in his own translation), is a miniature that doesn't quite work. Albert Rosen conducts, and the cast includes Cathryn Pope, Edmund Barham, Anne-Marie Owens, John Connell, and Nigel Douglas.

Festival Ballet, Festival Hall. The Nutcracker twice daily.

Paris

Théâtre de la Ville. Merce Cunningham, who compares water to the fluidity of dance, dances in four programmes with his ever revolutionary company. (42 74 22 77).

Opera. Offenbach's Orphée aux Enfers conducted by Alain Lombard shows the joyous elegance of the Second Empire in a dazzling production by Jean-Louis Martinoty (47 42 53 71).

Théâtre des Champs Elysées. The 20th International Dance Festival (Les Geants de la Danse). The festival continues with Grazia Galante, Marcia Haydee, John Neumeier, Cyril Atanasoff to the choreography by Petipa, Balanchine, Petit, Ashton, Lifar and Nureyev. The festival continues until Jan 5th (Festival info: 47 33 28 26).

Brussels

Théâtre Royal de la Monnaie. Norma (concert version) with Sharon Sweet as Norma. Sir John Pritchard conducts the chorus and orchestra of the Monnaie (20.00 Wed) 218-1211.

Tanztheater Reinhild Hoffmann of Bremen. Presentation of Callas, a dance performance based on the diva's most famous roles. 20.00 (Tues, Thurs), 22.30 (Wed). 218-1211.

Palais des Beaux-Arts. Les Ballets Russes brings dancers from the Kirov and the Bolshoi to perform scenes from Sleeping Beauty, Giselle and other works. (Tues) (512 88 78).

Vienna

Staatsoper. Ballet. La Fille mal Gardée, conducted by Sasson, with Robert Kerns. Otello, conducted by Garcia Navarro. Cast includes Gabriele Benackova-Cap, Wladimir Atlantow, Richard Burke. La Traviata, cast includes Waltraud Winsauer and Giuseppe Taddei. Salome, conducted by Hans Wallat, with Hildegard Behrens and Anthony Raffell. (Tel: 51444. ext. 2660).

Volksoper. Hänsel und Gretel, conducted by Disfried Bernet. Das Land des Lächelns, conducted by Rudolf Bibl. Die Fledermaus, conducted by Rudolf Bibl. Kiss me Kate, conducted by Herbert Mogg. Der Freischütz, conducted by Konrad Leitner. (51444 ext 2653)

Amsterdam

The National Ballet, Muziektheater. Peter Wright's version of Giselle (Mon, Wed matinee), Thur) (255 455).

Netherlands Opera, Muziektheater. Madama Butterfly staged by the and directed by Monique Wagemakers. Lucas Vis conducting the Netherlands Philharmonic, with Hiroko Nishida, Jonathan Welch, Anne Mason and Henk Smit. 255 455.

Rome

Teatro dell'Opera. Puccini's Manon Lescaut conducted by Daniel Oren in Alberto Fassini's production, originally done for the Turin Teatro Regio, with sets and costumes by Pasquale Grossi. The cast includes Raina Kabaivanska, Patrick Raftery and Mario Bolognesi (Fri and Tues) 46 17 55.

Milan

Teatro alla Scala. Uncut version of Rossini's William Tell splendidly conducted by Riccardo Muti. The excellent cast is led by Chris Merritt as Arnoldo, Giorgio Zancanaro as Tell and Cheryl Studer (replacing Lella Cuberli) as Mathilde. Luca Ronconi's production has been much criticised for his use of filmed Swiss landscapes as scenery, which tends to dwarf the action. (Fri and Wed). Jean-Pierre Ponnelle's Pesaro festival production of Rossini's "l'Occasione fa il Ladro," conducted by Daniele Gatti, with Gloria Banditelli, Luciana Serra and Claudio Desderi. (Wed and Thurs.) 80 91 26.

Florence

Teatro Communale. Pier-Luigi Samaritani's production of Puccini's Madams Butterfly conducted by Bruno Bartoletti, with Catherine Malfitano, Mario Malagnini (alternating with Richard Leech) and Jonathan Summers. 2779236.

Berlin

Berlin Opera. Beethoven's 9th Symphony conducted by Jesus Lopez Cobos with singers Pilar Lorengar, Martti Salminen, Ute Walther and Wolfgang Muller-Lorenz. Two gala ballet performances with the theme "coming together" has a selection of scenes from romantic ballets. La Bohème in Götz Friedrich's new production features Kallen Esperian, Gwendolyn Bradley, Antonio Ordonez and Andreas Schmidt.

Hamburg

Hamburg Opera. Beethoven's 9th Symphony, conducted by Christoph Eschenbach with Mechtild Gessendorf, Delores Ziegler, Andreas Schmidt and William Johns in the solo parts. Der Nussknacker is a wonderful John Neumeier choreography. Lohengrin has a strong cast led by Nadine Secunde, Eva Randova, William Johns and Fränz Grundheber. Turandot brings Olivia Stapp, Yoko Kawahara-Stobinski and Lando Bartolini together.

Cologne

Cologne Opera. There was much applause for the new Harry Kupfer production of Lady Macbeth von Mzensk, when it opened. Die Fledermaus has fine interpretations by Josef Protschka, Gabriele Fontana, Carlos Feller and Adelle Nicholson. Also in repertory: Hänsel und Gretel and Don Pasquale.

Bonn

Opera. The long-awaited premier of Die Fledermaus provoked heavy protests last week against the ultra modern Bernard Broca production. Luckily the musical interpretation was excellent by Ludwig Baumann, Hanna Schwarz, Georg Tichy and Julia Conwell. Tosca returns with a new cast led by Grace Bumbry.

Frankfurt

Opera. Il Barbiere di Sivigila, conducted by Imre Pallo takes the leads Marianne Rorholm, Sonia Theodoridou, Vladimir de Kanel and Rodney Gilfry. Artifact is choreographed by William Forsythe. The three one-act operas by Paul Hindemith Morda, Hoffnung der Fraüsen, Sancta Susanna and Das Nusch Nuschi are offered in a concert version with June Card, Michal Shamir, Gabriele Schreckenbach, Sonia Theodoridou, Julia Juon and Hellen Kwon. Fidelio is revived with Luana DeVol, William Cochran, and Douglas Johnson.

Stuttgart

Opera. Friedrich von Flotow's successful production of Martha returns with Krisztina Laki, Carmen Mammoser, Rudiger Wohlers and Helmut Berger-Tuna. Der Karottenkonig is a well done repertoire performance.

New York

Metropolitan Opera House, Lincoln Center. The first seasonal performance of Hänsel and Gretel is conducted by Christof Perick; Frederica von Stade plays Hansel and Judith Blegen, Gretel. Le Nozze di Figaro is conducted by Mark Elder in his premiere season, with Roberta Alexander as Rosina, Hei-Kyung Hong as Susanna and Thomas Hampson as Almaviva.

New York City Ballet, State Theatre, Lincoln Center. The 40th anniversary season features 26 works by George Balanchine, nine by Jerome Robbins, five by Peter Martins, and a month of Balanchine's Nutcracker. In addition, works by Laura Dean, Eliot Feld, William Forsythe, and Lar Lubovich, will be interspersed in the season, which ends Feb 26. (496 0600)

Washington

Washington Opera, Eisenhower Theater, Kennedy Center. After a month's hiatus and a change of venue, the company continues its season with Thodore Baerg as Figaro and Ruth Ann Swenson as Rosina in The Barber of Seville, as directed by Leon Major and conducted by Joseph Rescigno. (254 3776)

Chicago

Lyric Opera. Civic Opera House. Susan Dunn plays Aida to Giuseppe Giacomini's Radames in Nicolas Joel's production conducted by Richard Buckley. (332 2244).

Tokyo

Matsuyama Ballet Company, Nutcracker with Yoko Morishita. Directed and choreographed by Tetsutaro Shimizu. Kan'i Hoken Hall, Gotanda (Wed, Thurs) (406 6640).

Jack and the Beanstalk

LEWISHAM THEATRE

A dungeon. Two wide-eyed young men gaze around them at the dingy, cobwebbed walls. One turns to the other and whispers: "This place is horrible, dirty and very dangerous. Where do you think we are?" Pause.

"Catford High Street".

It's the Lewisham Theatre's annual panto and Keith Chegwin and Hilary O'Neil are stuck up the Beanstalk, inside the Giant's lair, with three foam-filled Mister Men and some dodgy-looking ghouls.

A secret door creaks ajar. "Look out behind you!", scream the 2nd Forest Hill Brownies, as the ghosts, in skull masks and ragged black shirts, begin to waft round the hapless pair. But Cheggers, alias Simple Simon, and Hilary, who plays Jack, are not about to get spooked.

Oh No They're Not! It's just aother cue for a pop song—a remarkably good pastiche of Michael Jackson's "Bad", done spot on by Ms O'Neil.

Pop is apparently what the younger panto punter wants these days and luckily inane lyrics and facile emotions fit nicely into pantomimes' fairy-tale plots.

Writer/director Jon Conway has done a hilarious job with the glue and scissors, for instance matching Jack and the Princess with Tiffany's "I think we're alone now".

Keith Chegwin is a master of the kiddy vox pop, hurling out the Curly Wurlys and egging four tiny ingenues on to the stage to wiggle their bums while Mike Lancaster as Fleshcreeps, the Giant's stooge, hurls abuse at the front row.

Geoff Capes, as Geoff the Giant Slayer, adds monumental weight to the frothy dance routines, jigging awkwardly, padding about the stage, and throwing cream pies with bumbling charm.

First night nerves must account for some unfortunate scenery mishaps. Backdrops were lowered half-way through crucial dialogue, accompanied by horrified whisperings from the wings of "Not now Bill!", and whoever was handling the spotlight did a good line in ankle shots while leaving the faces hidden in shadows. Perhaps the most outrageous gaffe was Mr Capes not seeming to know the words of the *Neighbours* theme tune, regally performed, to a standing ovation, at the start and end of the show.

What it lacks in lavish West End sets and costumes the Lewisham panto more than compensates in communal fun. Everyone did their bit from Cedric Monarch, as the Dame with a nice line in put downs, to three-year-old Ross, plucked from the fourth row to deliver the *coup de grace* to the giant.

Clare Dalziel

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Tuesday January 3 1989

New Year Resolutions

CONGRATULATIONS, **Mr Gorbachev**, on the decision to withdraw your troops from Afghanistan – and on giving every indication of sticking to the deadline, now only six weeks away. Credit also goes to you, **European Community Heads of Government**, for reaching, last February, a long overdue agreement on Community finance and the Common Agricultural Policy, even if it was neither as liberal (nor, probably, as permanent) as one would have wished.

Mr Baker and **Mr Greenspan**, you deserve silver dollars for your speed of response to the call for US support of the dollar. The success of the bear squeeze of the first week of 1988 exceeded everyone's expectations. Also deserving congratulation are the permanent members of the **United Nations Security Council** for seizing upon the exhaustion of the two combatants to facilitate an end to the war in the Gulf. But what a pity, **Mr Bush**, that you did not, in the case of taxes, heed our advice to "remember that you will have to live with what you have promised during the campaign, however unwise."

Mr Gorbachev, a system of property rights, and so the rule of law, lies at the heart of any market economy (even a socialist one). Democracy – still less mere talk of democracy – is not enough. Your most important resolutions for 1989 should be to impose the constraint of law on arbitrary interference – your own included – in the Soviet economy and society, and to give the Soviet people a political choice (by introducing democracy into the Communist Party at last). Meanwhile, you should remind your allies in Eastern Europe that the Red Army will not save them from popular revolts if they fail to make needed reforms.

Danger of ruin through dissension

Having won the Cold War, can the Western Alliance secure the peace, or will the dwindling of the Soviet threat bring ruin through dissension? Certainly, the squabbling between the EC and the US on trade has reached intolerable proportions.

Mr Yeutter, the US demand for a pledge of virtue on agricultural trade is an obstacle to progress in the Uruguay Round, not a route to it. Ask yourself whether the US is prepared to eliminate all trade-distorting measures in textiles and clothing. The answer is clear. So, **Mr Bush**, instruct your subordinates to abandon the hypocritical hectoring characteristic of US trade policy today and reach agreement by April on how to proceed with the Uruguay Round. Or do you wish to see the collapse of the postwar trading system during your term of office?

Not that the other major trading powers, the EC and Japan, are much help. "Fortress Europe", for example, is not a threat; it is already here, the rocks from which it is built being the EC's witch-hunt for East Asian dumpers, its craving for bilaterally defined reciprocity, and the CAP.

You spoke boldly and wisely in Bruges, **Mrs Thatcher**, on the need for an outward-looking EC. So how hard are you willing to fight against both EC anti-dumping practice and bilateral reciprocity, and for more liberalisation of agriculture? At the same time, what chance does your abrasive approach to your EC colleagues and your denigration of the European Commission give you of finding the allies you need?

Not, **Mr Delors**, that Mrs Thatcher is entirely wrong in her suspicions of the Commission. Resolve to make the new Commission's priority successful completion of the internal market. Put the idea of a European Central Bank on the back burner and eschew the search for needless harmonisation. So bury Lord Cockfield's value-added tax proposals. All you need is agreement on minimum rates of taxes – and even then only between countries where there is a significant potential for cross-border shopping. But do continue to insist on elimination of frontier barriers, which is the heart of the internal market programme, whatever Mrs Thatcher says.

The world now has one true superpower (the US) and two half superpowers, the Soviet Union (for its arms) and Japan (for its goods). Use your skills, **Mr Takeshita**, to promote a domestic consensus for free trade (including agricultural products) by the end of the century. Since Japan needs to find investment opportunities worldwide, you should also play a decisive role on Third World debt. Japan's trade surplus will become an issue again this year, as will that of West Germany. But further global adjustment now waits on US action. Currency stability is desirable, however, without it, the required capital flow will be disrupted. Meanwhile, ambitious schemes for global currency management can wait for the US to put its house in order.

Mr Bush, US power was not achieved on a national net savings rate of 2 per cent and will not be long sustained on inflows of Japanese, West German and Taiwanese money. Your aim should not just be to eliminate the budget deficit, but over time to achieve a budget surplus. Terminate the savings and loan crisis, **Mr Brady**. So close down the hopeless cases, incorporate their liabilities in the national debt and remember the lesson that moral hazard is, indeed, hazardous. You also need a new plan for Third World debt, one that might resolve the problem. Meanwhile, **Mr Greenspan**, you must resist the pressure to waste Mr Volcker's hard-won legacy on inflation.

Efficacy of long-range missiles

US self-interest dictates a new approach to its own hemisphere, **Mr Baker**, especially Mexico. The right approach is massive economic aid, combined with pressure for reform. It must be that, or watch helplessly as embittered economic refugees flood across the border.

Iraq's victory on points over Iran demonstrated the efficacy of long-range surface-to-surface missiles and chemical weapons, the latter a terrifying precedent. **Mr Bush**, you should commit yourself to signing the Iraq Sanctions Bill (if it passes Congress) and to applying sanctions, too, unless Iraq admits a UN inspection team and abandons further use of chemical weapons.

You also need to exploit the opportunity opened up by the Palestine Liberation Organisation's acceptance of Israel's right to exist. Make it clear to Israel that US support is firm, but not unconditional, and that secure peace must be based on restitution of the territories conquered in 1967.

Resolving these and other regional conflicts will involve increased use of the UN machinery. Congratulations, **Mr Perez de Cuellar**, for capitalising on better East-West relations to ease this process. This year, urge your Security Council masters to introduce the financial and administrative reforms the UN needs if it is to achieve its revived potential.

Finally, it's hip time in the UK. Remember, **Mr Lawson**, that your reputation depends on whether you leave office with a higher underlying rate of inflation than the one you inherited. The Budget should be very tight, since the UK, like the US, needs a higher rate of national savings, while National Insurance and housing are the priorities for tax reform.

Happy New Year to you all.

OUTLOOK 89

Alan Budd assesses the prospects for the UK economy

Testing Mr Lawson's luck

1989 WILL BE a difficult year. By the end of it the UK will be experiencing slower economic growth, more moderate inflation and, one hopes, lower interest rates. But it is one thing to recognise the destination; it is another to know precisely where the economy will go on the way. It will be a tough test for forecasters (which does not matter too much) and a tougher test for policymakers (which matters rather more).

In 1988 some simple rules of economic life were re-established after years in which they had apparently been suspended. There has been an exceptional boom for two years, following five years of strong growth. The UK now has accelerating inflation and a deteriorating balance of payments deficit – exactly what would have been expected in the bad old days of stop-go.

The immediate cause of the problem is readily identified: the consumer boom continued for a year longer than most people expected and it was overtaken by the fastest growth in industrial investment for nearly 25 years. It has been very exciting, but the strains were bound to show sooner or later.

Nobody looks at old economic forecasts (except, perhaps, old economic forecasters) but where the forecasts went wrong may provide some clue to how the economy will develop from now on. There were, of course, some who warned that the boom would continue, particularly those who had drawn attention to the growth of broader monetary aggregates. (Though similar warnings in earlier years had been unfounded.) But the consensus was that consumer demand would slow, and few anticipated the scale of the investment boom.

The mistake was the failure to recognise the extent to which people were prepared to continue to borrow to finance their spending. Two temporary shocks made matters worse: the announcement, in the March Budget, that multiple mortgage tax relief would end; and the further cuts in interest rates in an attempt to prevent a rapid rise in the exchange rate. Underlying this has been a change in people's willingness to borrow, due to three developments: an increase in confidence about employment prospects as unemployment fell at a rapid rate; brighter expectations of real income growth; and rising wealth, particularly as house prices accelerated. All those developments encouraged people to borrow more. At the same time deregulation and increased competition meant that financial institutions were only too happy to lend to households, particularly through mortgages.

This process had already brought the personal sector's savings ratio to such a low level (if the official figures were to be believed) that forecasters believed the adjustment was complete. They were wrong, but the mid-summer rush for mortgages and the period of low interest rates gave a further twist to the spiral, by pushing up house prices and making "equity withdrawal" (the use of mortgage borrowing to release funds which can be used to finance consumer spending) even more attractive. So the boom continued undiminished.

Booms are not a problem, but their consequences may be. The risk is that inflation will accelerate and will then prove difficult to stop. The alarming precedent is the boom of 1972-3, which ended in catastrophe. To start with, the inflationary effects of the boom were suppressed by prices and incomes policies. *Also, as now*, the boom seemed to help, especially in manufacturing, as rapid output growth was accompanied by a rapid rise in labour productivity. Only when the economy slows are the cost pressures revealed.

How will the economy develop in 1989? Once again the consensus is that growth will slow down and that consumer spending in particular will slacken as the processes which maintained the consumer boom in 1988 are reversed. The savings ratio will stop falling and may start to rise. That effect will be reinforced by the rise in interest rates, the end of the mortgage rush and the slowdown, or even fall, in house prices.

All borrowers will be worse off and it will be particularly painful for couples who stretched themselves to buy a house they could not quite afford. If, as a result, they spend less on consumer goods, the Government's policy will be having its desired effect. The slowdown in consumer spending could be quite dramatic, as the shock of higher interest rates could be having its effect just as the rise in personal indebtedness was ending of its own accord. The forecast growth rate of 2.4 per cent implies that consumer spending will now stay flat.

The capital spending boom has been a response to high profitability and pressures on physical capacity. It is unlikely that this year's growth in investment will match the pace of 1988 and house building could well fall. Overall, the growth of investment will be about 5 per cent, which is about half the growth rate of 1988.

Thus the growth of domestic demand will slow down quite sharply. That does not necessarily mean that there will be a recession. The ideal outcome would be for the foreign trade balance to take up the slack. Britain could then continue to have strong economic growth while the balance of payments improved. That is probably too good to be true. The growth of the world economy will slow down as policies are tightened and as the major economies approach full capacity. The question is whether UK exporters can expand their share of world trade; there is a good chance that they will be able to do so. The strength of domestic demand last year made the UK market exceptionally profitable and resources were diverted away from exports to the home market. This year, with domestic demand slowing down, the process could be reversed. If it happens quickly enough the current account deficit will improve as the year goes on.

Inflation will peak at above 7 per cent early this year when the full effects of the mortgage rate increase are felt. The underlying rate of retail price inflation has accelerated from 4 per cent to about 5 per cent. The same has happened to manufacturing prices. Those price increases, which are well ahead of cost increases, show how strong domestic demand has been. It has allowed a significant widening of profit margins. As the pressure of demand weakens, inflation will slow down and profits will be squeezed by rising labour costs.

How should policy develop? The problem is that there may be periods in which inflation is accelerating while the economy is moving into recession. If that happens, should the Government respond to inflation and tighten policy, or should it respond to the recession and relax policy? If it responds to inflation it will, in effect, be reacting to events whose cause lies some time in the past. Ideally it will respond to an indicator which gives advance warning of inflation. The Government believes that monetary policy provides both the best instrument for controlling inflation and that monetary conditions are the best indicator of its future path.

That leaves the slightly awkward question of what one means by monetary policy. The Government believes that monetary conditions are best measured by the growth of narrow money (M0). Its target range for 1988-9 is 1-5 per cent and it will presumably set a similar range for 1989-90. In practice the Government has always chosen to retain some discretion in interpreting financial conditions (for example by taking the exchange rate into account); but that discretion is part of the cause of our present difficulties. It would be better if the UK had a period in which the Government re-established the credibility of its monetary policy and ensures that it returns to, and stays within, its target range.

Forecast for 1989

% chg on prev year	1989	1988
GDP (av est)	2.5	4.5
Consumers' exp	2.4	5.8
Fixed investment	5.0	9.8
Exports	4.4	3.0
Imports	3.4	12.5
Retail prices, Q4	4.5	6.5
B of P (£bn)	-15.6	-14.4

Mr Lawson has, rightly, rejected the use of fiscal policy as an instrument of short-term demand management. The interesting question is whether the Government should seek to influence the nation's overall level of savings, either by encouraging private sector savings or by raising the public sector's budget surplus. The deterioration in the balance of payments has its counterpart in the fall in the personal sector's savings ratio. In coming years the UK could see a sharp fall in company savings as profits growth slows down. If that happens, should Britain rely on the rest of the world to finance its investment or should it try to generate more savings at home?

My instinct is that the Government does not have a role in this matter and that the decision is best left to the market. The Government is right to respond to balance of payments figures which suggest that demand is growing at an unsustainable pace; but once it has taken the steps to control inflation it should not concern itself with private sector decisions about whether Britain should use its own savings or borrow from abroad to finance its capital spending.

The most difficult question will concern exchange rate policy. The experience of early 1988 shows where things can go wrong. The desire to hold the D-Mark/sterling rate at DM 3 made good sense as part of a long-term counter-inflationary strategy. Such a policy would indeed ensure that our inflation rate would settle down at about the German rate (or slightly above it). But large gaps can open up in the short term. It can hardly be doubted that our inflationary problems would be much more serious now if the rate had been held at DM 3. At the same time one can sympathise with those companies which want stable exchange rates.

But the UK cannot have it both ways. If control of inflation is the first priority the Chancellor will have to accept the consequences for the exchange rate. If he wants to control the exchange rate he will have to accept the consequences for inflation. With luck the dilemma will not be too serious and the discretion built into the money supply target range will be enough for some smoothing of exchange rate movements.

But Mr Lawson is not as lucky as he used to be. There may well be a time during 1989 when the exchange rate is falling sharply and all the indicators show that growth has slowed down. Or Britain could have the 1988 experience, in which the exchange rate is rising while the Government is still trying to cool the economy down. The choice will be a very difficult one.

The saddest part of the current economic scene is that the discussion is about the need to slow down the economy when the recovery has only just started in many parts of the country. It shows how little has changed, particularly in the labour market. If the unemployment rate were the same throughout the UK as it is in the south-east (excluding central London) there would be about 600,000 fewer people unemployed. Ideally output would continue growing strongly in those districts where unemployment is still high, but that would require more labour market flexibility than the UK possesses.

In summary, three years of spending have been crammed into two and the economy has to slow down. But when the temporary problems are solved it will again be time to recognise the economic transformation that can produce a combination of sustained growth and low inflation that would have been thought impossible a decade ago.

The author is Economic Adviser to Barclays Bank, London

OBSERVER

Blom-Cooper reforms

■ Sir Zelman Cowen was not quite such a bad chairman of the Press Council as he seems to believe his critics claim. At least he speeded up the proceedings, and no one disputes that he was well-intentioned. The problem was that there was no very clear reason why he should have been appointed in the first place.

As he admits in a rather bitter valedictory essay, he had no obvious qualifications for the job: as a recent arrival from Australia and the newly established Head of an Oxford College, he knew almost nothing about the press, especially in the UK. What he did was to keep the wheels in motion.

Yet if you read the the council's latest annual report, in which the valedictory appears, you will see what a fusty and even fussy machine it is. The report gives a long list of cases in which the council was called to adjudicate.

It would be wrong to say that most of the cases are trivial, since what seems trivial to outsiders may be deeply serious to the people involved. But what stands out is the ponderous nature of the hearings. The Press Council has become a bureaucracy whose members clearly delight in committee meetings.

It need not be so. The best and simplest reform would be for newspapers to have their own adjudication procedures to which aggrieved readers could appeal directly. Each paper would have its own Ombudsman who would work on the facts of the case and a possible right of reply. The Press Council would be held in reserve for cases which could not be resolved internally. And beyond that, of course, there would be the courts.

Such a reform is what Louis Blom-Cooper, the incoming chairman, has in mind. It is meeting some resistance from the existing council since it would render many of its present activities redundant. There may even have to be a rewriting of the Press Council constitution to bring all the proposed Blom-Cooper reforms about.

Only the proprietors who, through the various publishing bodies, established the Press Council in 1953 can ensure that such changes in the constitution come to pass. And if they do not act early, the opportunity may be missed for good. There is still talk in the House of Commons of controlling the press by statute.

One clause in the existing constitution, however, should be kept. Article 2 (i) says that one of the objects of the council is "to preserve the established freedom of the British press." Not everyone seems to know that it is there. Blom-Cooper regards it as one of the most important of the lot.

"I can't work out if he's huffing about Lawson or Thorneycroft."

Big present

■ A belated Christmas card has arrived from a member of the Japanese House of Representatives. The picture is of a handsome Father Christmas presiding over six well-nurtured Asian children dressed like angels. The message inside reads: "What will Koji-Claus bring for us?" And the answer it gives is: "Free Trade, Economic Aid, Cultural Exchange, etc . . ."

With all those blessings, we are left wondering what the *et cetera* can be.

French airs

■ France could not agree on what sort of Revolution it wanted to celebrate in 1989, so it compromised by starting the bicentennial ceremonies with a commemoration of the Montgolfier brothers.

The Bicentenary Commission headed by the historian, Jean-Noel Jeanneney, began its official programme by sending off hot air balloons from every department of France – five years late for the 200th anniversary of the Montgolfiers' first balloon launch.

The ceremonial balloon launch passed off without a hitch, and balloonist, Thierry Villey, complete with wig and frock coat, set off from Paris's Tuileries gardens and sailed west in a replica of the wicker gondola in which the French physicist, Jacques Charles, made the first hydrogen balloon flight on December 1, 1783, from the same launching site.

Just in case the crowd – mostly foreign tourists – might get the unfortunate impression that they were meant to be celebrating the overthrow of the French monarchy, the balloon was covered in fleur-de-lys, the emblem of France's royal house. References to Robespierre and the Terror have been carefully banished from the festivities, though there is a model guillotine tucked away in a corner of the Place de la Concorde.

Two major events of the year should be less controversial. The French have become used to having a party on July 14, even if many of them are no longer terribly proud of the storming of the Bastille. And the Declaration of the Rights of Man, commemorated on August 26, appears to be one of the few aspects of 1789 that arouses near-unanimity.

The declaration was read aloud at each of Monday's 98 balloon launchings; by the end of the year, after much repetition, there will be little excuse for not knowing it by heart.

Reith's dreams

■ It was good of the BBC to repeat the 1960 interview with Lord Reith, the man who is supposed to have set the corporation's standards.

They don't make programmes like that any more, where the interviewer (John Freeman) is so self-effacing. Perhaps people don't come like Reith any more either. The only other figure I can think of so convinced of his own rightness is Enoch Powell. "Are you conscious of making any mistakes in the edifice you erected?" Freeman asked. "No," said Reith. He also said that he never had any doubt that it was wrong to break the public service broadcasting monopoly: "The public was entirely satisfied with the BBC."

He added that he would have liked to have been Viceroy of India or Prime Minister. So would Enoch Powell.

Craftsmen

■ From a California newspaper: "His apartment is hung with many outstanding examples of modern art, including two works by Salvador Dale, the famous painter." Not to be confused with his brother Chippen, the famous carpenter.

OUTLOOK 89

Lawrence Summers analyses the economic issues facing the incoming Bush administration

Here comes tighter US money

The persistance of America's economic recovery has come as a surprise to those who believe that there are inherently regular rhythms in economic fluctuations. But it should not have.

No US recovery since the Second World War has died of old age, as demand petered out or inventory accumulation proved excessive. Fears that recoveries would run out of steam, like those expressed during 1985 and again after 1987's stock market crash, have always proved wrong.

Instead, recoveries ended when they were murdered by the Federal Reserve, with inflation control as the motive. This is what happened in 1958, 1967, 1970, and most dramatically after 1974 and between 1979 and 1981.

Will the current recovery be killed off? An outbreak of inflation followed by a sharp monetary contraction is one risk. Another comes from the dependence of the US economy on foreign capital.

Becausa American net national saving (that is, saving after deducting depreciation) has plummeted from more than 7 per cent of gross national product in the 1970s to about 2 per cent at present, the US is now borrowing heavily from abroad and running unsustainable trade and current account deficits. The challenge for American policy over the next few years is to maintain steady growth, without allowing the economy to overheat, while still coping with the large trade deficit.

These objectives suggest the importance of increasing the rate of national saving. In a nearly fully employed economy like the US today, reducing the trade deficit and maintaining investment demand without setting off rapid inflation is impossible as long as private and public consnmption (including the consumption of capital) absorbs 98 cents out of every dollar of income.

Increases in American national saving are critically important if the trade deficit is to decline without causing excessive inflationary pressures and crowding out much-needed investment spending.

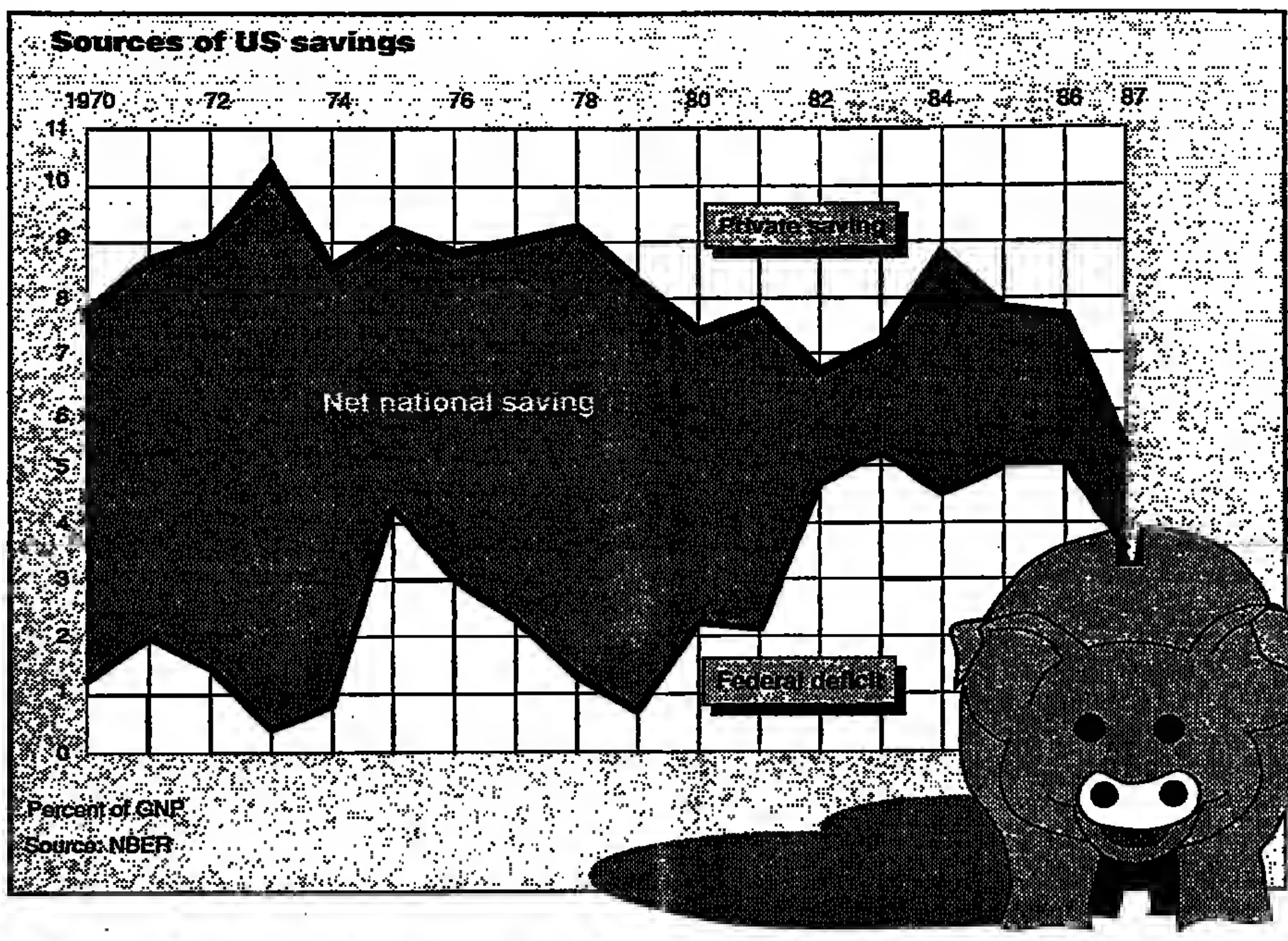
Unfortunately, the American national saving rate is unlikely to increase soon. It is true that considerable progress has been made since the early 1980s in rednciug budget deficits. In 1985, the budget deficit exceeded 5 per cent of GNP and official forecasts called for deficits to rise as far as the eye could see. In 1989, the budget deficit is expected to be just above 3 per cent of GNP and official projections now call for it to decline over the next few years.

Alas, the rate of private net saving has declined more rapidly than the budget deficit, causing the national net saving rate to fall, too. During the 1970s, private net saving averaged 8.9 per cent of GNP, while the federal deficit averaged 1.7 per cent of GNP, implying a national net saving rate of 7.2 per cent. By 1987 tha national net saving rate had declined 5.4 percentage points, to 1.8 per cent. Of this decline, two thirds was the result of the fall in private saving and only one third was the result of an increased budget deficit.

There is little reason to expect a reversal in the downward trend in the American private saving rate. The lesson of the early and mid-1980s – when private saving declined despite real rates of return at record high levels, financial deregulation and significant tax incentives – suggests that public policy can do little to increase private saving in the short run. Reducing federal deficits is the most potent and reliable way to increase national saving.

Those who expected a honeymoon period in which the new President, the National Economic Commission and Congress could craft a budget compromise did not allow for a presidential campaign in which the President-elect painted himself into a corner. Mr George Bush has required even the pragmatists in his administration to read his lips and vow not to raise taxes, denigrated the role of the National Economic Commission, and continued to pledge fealty to the dubious "flexible freeze."

The flexible freeze relies on the assumption that interest rates will fall by 360 basis points from current levels and makes no allowance for new spending on anything from drug enforcement to bailing out the savings and loan institutions to creating a "kinder and gentler America." Even so, it requires cuts averaging close to 10 per cent in the real level of the non-interest, non-social security, non-defence portion of the federal deficit in order to balance the budget by 1993. Cuts of this magnitude stand little chance in Congress.



The reality that the national saving rate is not likely to increase must shape any judgment about economic prospects for the next few years. Without a reduction in the budget deficit, the risk that monetary policy will turn contractionary is real.

Last year, the Federal Reserve had strong reasons for erring on the side of growth. Post-crasb jitters persisted in the early part of the year. Later on, the desire to make prompt deficit reduction appear feasible and desirable to the new President and Congress inclined policy towards expansion. For mnch of the year, too, good news on trade supported the dollar, even in the face of declining interest rates.

Now in the post-election period, the Federal Reserve will probably err on the side of fighting inflation. Crash jitters are long gone; snbstantial reduction of the budget deficit will probably not take place; and the dollar has come under renewed pressure.

Supporting the prospect of contractionary monetary policy in coming months is this lesson of history: with the sole exception of Ronald Reagan's second term, every Republican administration since 1920 has begun with a recession.

There is a good chance that inflation statistics will give the Federal Reserve reason to act at some time in the next year. Conditions in both labour and product markets are tighter than they have been for a decade or more, and most inflation measures have started to creep upwards.

It is at least plausible that increased wage demands, unfavourable oil price developments and a falling dollar could ratchet the expected inflation rate up to around 5¼ per cent during 1989. In the absence of fiscal restraint, this would almost certainly force Federal Reserve action.

What about the dollar and the trade deficit? Here the long-term fundamentals are mucb clearer than the short-term ontlook. Although the dollar has now declined to its 1980 level in real terms, there is little reason to expect the current account to return to its 1980 level of near balance without a US recession.

A host of factors suggests that the dollar would have to fall substantially over the next few years if the US current account deficit were to be eliminated:

- When differences in national accounting procedures for computers are corrected for, US manufacturing productivity has continued to grow less rapidly than that of most of its trading partners.
- The US has shifted from loaning and exporting to Latin America to borrowing and importing from Latin America.
- Farm prices have fallen sharply on world markets, reducing the value of US exports.
- The period of overvaluation of the dollar in the mid-1980s entrenched foreign producers in American markets and caused American producers to withdraw from foreign markets.
- The 1992 programme of the European Community is likely to divert at least some demand from American to European producers, while the increasing reliance of Japanese producers on low cost suppliers in other parts of Asia will further reduce the competitiveness of American producers.
- While the US used to be a major creditor and so could run a trade deficit and still balance its current account, now it must run a trade surplus to avoid going deeper into debt.

How far must the dollar fall if the current account deficit is to be eliminated without a US recession? As a rule of thumb, a 1 per cent real reduction in the value of the dollar reduces the trade deficit by about $6bn. This suggests that a dollar depreciation of about 20 per cent would be necessary to balance the current account, even assuming that some improvement is in prospect as lags work themselves out.

This figure of course refers to real depreciation. Inflation in the US is running about 4 per cent faster than in Germany and Japan and the difference is more likely to rise than fall. This entails another 20 per cent dollar depreciation over the next five years. Adding this to the previous 20 per cent figure suggests the possible need for a dollar decline of close to 40 per cent against the yen and D-Mark if trade balance is to be restored without a US recession.

This is not a foreign exchange forecast. Inflation may well break out and Federal Reserve would thsn tighten, bringing the trade deficit down as the economy contracts. This is why news pointing towards more expansion in the economy or to the prospect of increased inflation has been bullish for the dollar over the last few months.

Even in the absence of a break-out of inflation over the next few months, it is doubtful whether the American economy would benefit from a sharp reduction in the dollar or trade deficit in the absence of any increases in the national rate of saving.

Without the cushion of the budget deficit reductions that occurred between 1986 and 1987 and the crash after that, a falling dollar and trade deficit would risk a major increase in inflation. Furthermore, the US will be better off financing investment by borrowing from abroad than accepting the woefully low level of investment that domsstic saving alone could finance.

But markets do not always grant policymakers their wishes. Besides inflation, the crucial question about the sustainability of America's current economic path is whether foreigners will continue to be willing to hold American assets at current prices.

The observation that Tokyo office buildings sell for 60 times annnal rents, while American office buildings sell for 10 times annual rents, suggests that there are strong pressures sustaining capital flows to the US. So does the related observation that the land in Tokyo is now worth enough to buy all the land in the US and all the companies on the New York Stock Exchange, with a trillion (million million) dollars left over.

None the less, no American asset will be attractive to investors who expect the kind of sharp decline in the value of the dollar that would be necessary to balance the US current account without a recession. This makes prophecies about the American current account deficit self-fulfilling. If it is expected to persist, there will be no downward pressure on exchange rates and current interest and yield differentials will be sufficient to finance it. If it is expected to drop off sharply, the dollar exchange rate will collapse and this propbecy could be validated, too.

With all these uncertainties the American recovery lives on. But it may well be endangered in coming months by inflation, a cessation of capital inflows, or both together. One can hope, though not expect, that reduced budget deficits and increased national savings will come to its rescue.

The author is Nathaniel Ropes Professor of Political Economy at Harvard University

Forecasts of the Japanese and West German economies in 1989 will appear tomorrow

LETTERS

Safety must come first

From Mr John Francis.

Sir, British Rail's internal inquiry into the Clapham rail disaster has identified faulty installation of signalling equipment as the immediate cause of the accident.

The public inquiry, rather than making scapegoats of individuals, must examine the management of safety on British Rail as a whole.

With an attitude of mind not dissimilar to that displayed by London Regional Transport prior to the King's Cross fire, British Rail plans to cut nearly £1m from its signalling maintenance budget, to double the interval between routine signal inspections from 12 to 24 days, and to lengthen the working day for track and for signalling and telecommunications staff to 13 hours.

The average weekly hours worked by signalling and telecommunications staff is already 54; the turnover of staff from April to October 1988 in the London area alone was 16 per cent.

Given figures such as these, it is not surprising that the team working on the Clapham signals was short-staffed and working under extreme pressure in difficult conditions.

In its drive to meet government targets British Rail wants to remove guards from even more trains. Yet it was only the prompt action of the guard on the third train that prevented e further passenger train from running into the wreckage at Clapham.

Elsewhere, British Rail's safety record is less than satisfactory. Seventy year-old signals on the Marylebone-Banbury line are illuminated at night by paraffin lamps; and not all these signals are fitted with telephones.

Only two passenger services in the London area (Bedford-St Pancras and Moorgate to Hertford/Welwyn) are fitted with driver radio telephones.

Since 1981 drivers have repeatedly warned of problems with the Westcode braking system used on British Rail's modern "sliding-door" commnter stock, resulting in signals passed at danger, platforms and stopping marks overrun, and collisions.

Seven years later, British Rail has still not modified this braking system, despite the fact that the number of signals passed at danger has nearly doubled over this period.

The Fennell investigation into the King's Cross fire concluded that transport operators "must place safety first."

It would appear thet British Rail has yet to learn this lesson.

John Francis,
Campaign to Improve London's Transport, Research and Resources Unit,
99 Midland Road, NW1

Cultural leadership from the middle-aged

From Mr Bob Tyrrell.

Sir, Christopher Parkes's article on December 24 on the demographic changes that will occur in Europe over the next couple of decades failed to emphasise an important implication of these changes.

In his article he pointed out how commercial centres of gravity will be shifting from youth to more mature population groups.

What he failed to say was that in the kinds of society we have in Europe there is an inexorable tendency for cultural to follow commercial centres of gravity.

In short, the rather peculiar and transient (in a long-run historical perspective) period through which we have lived in the last 30 years or so, in which young people have been the "leading edge" of culture (in everything from music and clothes to setting key parts of the political agenda), will come to an end.

Prior to this period the agenda-setters were generally the more mature population groups. It is only really since my generation (I am 37) that sons stopped wanting to be like their fathers (and fatbers started embarrassing their sons by trying to be like them).

This will change in the 1990s, and indeed is already starting to do so. Sons and daughters will once again aspire to the images and values of their parents.

Those of us whose memories were formed during the generation when youth was synonymous with cultural leadership will have to change our ideas, because the longer-term historical reality will be asserting itself.

If this does not mean that being middle-aged will be trendy, it does mean that being middle-aged will be something for which we need no longer apologise.

Bob Tyrrell
Henley Centre
2-4 Tudor Street, EC4

To the health of both chicken and man

From Mr R.J. Wood.

Sir, Before sending a cheque to the Royal Society for the Prevention of Cruelty to Animals in support of its campaign against keeping poultry in battery cages, I invite readers to consider the Ministry of Agriculture's new code for the hygienic keeping of laying fowl.

The guidelines, which many people feel should be given the force of law, state in their introduction: "It must be recognised that, by the nature of the systems used, non-cage layers are unable to conform with aspects of this code."

The code says this because a chicken on free-range is able to wander around in, and peck at, its own excreta. Eggs are laid on the ground and it is difficult to keep them clean.

Chickens can also pick up infections from wild birds and rodents. They are vulnerable to attacks from predators and cannibalism from other birds.

Free-range chickens suffer extremes of temperature and weather whicb can cause stress. In large flocks the peck order can deprive some of their food.

All this contributes to a mortality rate in free-range systems up to five times that found in battery layers.

Given these facts, perhaps it is time that the RSPCA revised its policy and recognised that the battery system is the best we have for keeping poultry – for the healtb and well being of both chicken and man.

R.J. Wood,
Linden House, Long Lane, Tong, Nr Shifnal, Shropshire.

Dangerous deviations

From Mr W Grey.

Sir, "The Chancellor's reaction to the current 'crisis'," Mr Mark Brinkley argued (Letters, December 20), "should have been to do absolutely nothing and let the market find the appropriate level for the pound and interest rates, for that is the course which maximises the possibilities of soft landings."

His case for "benign neglect" was well put, but is flawed none the less. His strategy of lowering interest rates and letting the pound fall would further stoke up the credit boom and turn the "crisis" into a sustained battle for survival.

Lower base rates in those potentially inflationary circumstances would not fool the gilt-edged market, which would rapidly push up long-term rates and hoist an immediate danger signal. Faced with this, the equity market would not take long to take fright either.

In the end, the Chancellor would be forced to apply the brakes, producing the very results Mr Brinkley is anxious to avoid. How much better, therefore, for a prudent Chancellor to condnct affairs in such a way that the economy, and hence also the exchange rate, are kept as stable, without potentially dangerous deviations either way, as humanly possible.

W Grey,
12 Arden Road,
Finchley, N3

On the road

From Mr Angus Dalgleish.

Sir, Mr Bruce M. Adkins (Letters, December 17) affirms that road transport is generally cheaper, more flexible and more reliable than rail. Why therefore attempt to force traffic back on to the railways? To avoid the disruption caused by heavy flows of road vehicles we need a road network which separates the traffic from people's living space.

In 1957 the Road Research Laboratory drew attention to the need for such a new segregated road network, but nothing was done. The Victorians built sucb a system for trains in a very few years; why can wenot provide the same for road vehicles?

Angus Dalgleish,
Shouson Hill, Ruxbury Road, Chertsey, Surrey.

FINANCIAL TIMES
Tuesday January 3 1989

Going into the red gets a new meaning in Moscow

By Our Moscow Correspondent

THE SOVIET UNION'S 37,000 factories and industrial enterprises reopen today under orders to operate on the basis of full *khozraschet*, or "cost-accounting."

The accounting change, which actually came into effect on Sunday but which Soviet newspapers let pass unmarked, probably because it came in the middle of a three-day weekend, means that Soviet industry will now be expected to fund all operations from its own resources.

For most Soviet factories, *khozraschet* is less of a privilege than a responsibility. The term itself literally means "economic accounting," or *khozyaistvennii raschet*. A Soviet economist has defined it as "the carrying out of state-determined tasks with the maximum economy of resources, the covering of money expenditures of factories by their own money revenues," and "the ensuring of profitability".

In practice factories must now buy supplies and material from their own profits. They are not to finance investments, or cover losses, by dipping into the coffers of the government ministry supervising their work.

Mr Mikhail Gorbachev, the Soviet leader, was not the first to propose this concept. The term is nearly as old as the Soviet state. It originated in the early 1920s as Soviet leaders attempted to sort out the mess they had made by plunging headlong into a primitive communist system.

On August 9 1921, a Soviet decree declared that all factories would in future operate on *khozraschet*, and that they would be held accountable for profits and losses. Since then *khozraschet* has remained an elusive goal.

Stalin often spoke of the concept but his drive to industrialise the country at breakneck pace rewarded rapid growth rather than economical use of resources.

In theory all Soviet factories have been operating on the basis of *khozraschet* since Lenin's time, which is why Mr Gorbachev has called for the introduction of "full" *khozraschet*, implying that the efforts of his predecessors to enforce this discipline was half-hearted.

Because of the difficulties *khozraschet* will impose on factories, the Soviet government decided to make its latest push in two shifts. Since January last year *60 per cent of Soviet factories* have operated on full *khozraschet*, but now all are to be switched over.

Khozraschet has proved a difficult concept outside the Soviet Union as well. While glasnost and perestroika are well on their way to entering the English language, the tongue-twisting *khozraschet* has stubbornly defied the trend.

Stalinist economy proves hard to dislodge

Paul Hofheinz argues that there is no popular support for Gorbachev's reforms

FOR NEARLY four years, Mr Mikhail Gorbachev, the Soviet leader, has tried to invigorate the Soviet economy by applying a bewildering array of unorthodox approaches and new methods of management to the old Stalinist system of central planning.

Where factories once worked to fulfil five-year plan targets set by bureaucrats, they are now meant to operate on a self-financing basis, drawing their profits from sales and financing operations entirely from earnings.

Consumers can now dine in elegant restaurants, purchase once forbidden street art and buy fashionable clothing from co-operatives – a curious ideological pastiche which allows would-be businessmen to form small companies without having to admit they are capitalists.

But amid this flurry of activity, Mr Gorbachev has neglected some basics. In particular, he has failed to create a constituency for the reforms he hopes to introduce – and that oversight is threatening to make 1989 a rough year for economic reform.

The co-operative movement in particular has met an extraordinary amount of resentment among the population. Despite the greater range and higher quality of services which the co-operatives have provided, most Soviet citizens bitterly resent the new businesses. Sixty years of living in a non-market economy have made them bitterly hostile to the high prices co-operatives charge, as well as to the wealth co-operative owners are acquiring.

Every year, Russians decorate a tree for their New Year's Day celebration – much as Westerners do for Christmas. This year, when the state market sold out of trees nearly a week before New Year's Day, co-operatives popped up around Moscow to fill the demand. Unfortunately, the co-op owners wanted six roubles a tree – nearly 10 times the price in state stores.

"That's a crime," one Moscovite grumbled, rubbing his hands together in the cold in front of a co-operative tree market. Still, he joined the queue and bought a tree. "What am I supposed to do? I need a tree... but six roubles."

If Mr Gorbachev hopes to make perestroika succeed, he is going to have to create a better understanding of the laws of supply and demand among the Soviet population.

Soviet citizens are militantly opposed to any moves that involve raising prices – even if experts agree some price increases will be necessary to make the new system work. The self-financing system in particular, on which Mr Gorbachev has staked the future of the Soviet economy, will obviously need a more rational pricing mechanism to function.

Under the new system, factories are expected to finance their own operations out of earnings. Prices will clearly play an important role in determining which factory is operating successfully.

This year, the Government deficit is expected to swell to 36bn roubles ($59bn), largely because of enormous subsidies to consumer industries, which still fail to provide enough goods to meet the population's needs.

Meat costs just two roubles a kilo, but it has become so rare that it is rationed across nearly a third of the Russian Federation. Much of this is the fault of an outdated pricing mechanism, which fails rationally to assign resources throughout the economy.

Far from addressing these problems, Kremlin leaders have tried to smooth the growing public unrest with a series of concessions that directly threaten the reform they are hoping to introduce. Just before Christmas, a senior planning official announced that contrary to rumours, prices on consumer goods would drop next year – a decision which, while popular, would only add another 100m roubles to the already burgeoning state subsidies.

Similarly, the co-operative movement suffered a serious setback in the week leading up to New Year's Day when a government decree unexpectedly slapped a series of bizarre restrictions on their operations. The decrees banned co-operatives from selling jewelry, video cassettes, alcohol or any objects with religious images on them.

If Mr Gorbachev is to blame, it is largely for failing to create a constituency for the changes he will have to make. So far, he has continued to blame bureaucrats for the slowness of reform – a policy which has struck a popular chord, even if it has only confused the internal debate over economic reform.

At the 19th party conference last June, Mr Gorbachev blamed the slowness of self-financing on "attempts by ministries and departments to retain dictatorial methods with regard to the factories".

Economists, however, have begun moving beyond that analysis. An authoritative report prepared last summer by the nation's leading planning officials maintained that the resistance to reform was not coming from bureaucrats, but from the fact that Mr Gorbachev expected the new self-financing system to operate alongside of the state planning system.

Factory managers, the report noted, were fulfilling plans rather than introducing untested reform methods – largely because the leadership still expected them to fulfil the plan.

People dislike bureaucrats, and whenever Mr Gorbachev bashes bureaucrats in a public forum it strikes a popular chord. Unfortunately, bureaucratic resistance is not the main problem his economic reforms are facing.

Ironically, as 1989 begins, the two superpowers resemble one another more than ever. In the US, a presidential candidate must utter ridiculous platitudes about not intending to raise taxes just to get elected. Experts may agree that a tax rise is necessary, but the American people feel differently. Put simply, there is no constituency for introducing the harsh measures it will take to put the US economy back on track.

Mr Gorbachev's dilemma is similar. In order to reform the Soviet economy, he is going to have to raise prices. Unfortunately, he has created no mandate for taking this step. Perhaps, unlike the US President, he will not resort to demagoguery at the expense of economic policy, but the temptation to skirt the real issues on behalf of the popular ones will be very strong – even if the path of least resistance, in the US as well as the Soviet Union, threatens to distract both nations from the real challenges they face.

Breach inquiry over deals in Blue Arrow

By Clive Wolman in London

COUNTY NATWEST, the investment banking arm of the UK's National Westminster Bank, and Phillips and Drew, the London securities firm, may have created an illegal concert party by their arrangements to conceal their acquisition of a 15 per cent stake in the employment group Blue Arrow.

Some of those involved will be giving evidence of a possible breach of the Companies Act to Government inspectors investigating the circumstances behind the £837m ($1,498m) Blue Arrow rights issue in September 1987 which was used to finance the acquisition of the US firm, Manpower.

County NatWest was acting as the investment banking adviser to Blue Arrow; Phillips and Drew, which is owned by the Union Bank of Switzerland, acted as brokers. The purpose of a complex indemnity arrangement between the two firms, details of which were kept secret until last weekend, was to conceal their joint acquisition of the 15 per cent stake. This would give investors the impression that the share sale was popular and encourage their participation.

County NatWest has claimed that the arrangement was made with the approval of its solicitors, Travers Smith Braithwaite. It claimed similar legal approval for the moves to conceal its own direct 9.5 per cent stake in Blue Arrow by nominally assigning 4.6 per cent of the shares to its market-making arm.

However it now appears that neither of the two approvals was given in writing. A note recording with disapproval the absence of written opinion or authorisation appears on the internal County NatWest compliance file which is now being examined by the inspectors appointed two weeks ago by the Trade and Industry Department.

A key issue is whether the indemnity arrangements amounted to an undisclosed concert party in breach of sections 204 and 206 of the Companies Act. Interests in more than 5 per cent of a company's share capital held by a group of investors acting in concert have to be disclosed under the Companies Act.

One concern of some of those asked to appear before the inspectors is that the indemnity arrangements may have given County NatWest a disclosable interest in the Phillips and Drew shares, any losses on which it would have to bear. According to section 208, an "interest in shares is to be read as including an interest of any kind whatsoever in the shares."

There is also uncertainty over the precise terms of the oral agreement struck with Phillips and Drew. Any restrictions imposed on its use of the shares, for example a requirement to inform County NatWest of its intentions to sell, would also create a concert party under section 204.

The investigation is leading to mounting pressure for the resignation of Ms Elizabeth Brimelow as chairman of the Rules Committee and a board member of The Securities Association, the largest self-regulation organisation in the City of London.

UK growth forecast to slow

By Ralph Atkins, Economics Staff, in London

HIGH INTEREST rates, a large current account deficit and medium inflation and economic growth will characterise the UK economy into the 1990s, according to a Financial Times survey.

A compilation of forecasts for the British economy from 22 groups, and including the Treasury's Autumn statement forecast, suggests that growth will slow this year and next. Inflation is thought unlikely to fall much below 5 per cent while unemployment remains stubbornly high.

The groups surveyed include City of London securities houses, universities and organisations such as the Confederation of British Industry and the Ernst & Whinney ITEM club. Most forecasts were prepared in December.

The average of the forecasts provides some good news for the Government; growth in gross domestic product is expected to slow to around 2½ to 3 per cent a year and increase in line with growth in consumer spending.

Government finances are expected to remain buoyant with more than £13bn ($23bn) of debt repaid in both 1989 and 1990.

However, the slowdown is generally forecast to be more pronounced than expected by the Treasury.

The current account is expected to show some improvement this year with the deficit predicted to total £13.5bn – about the same as for the first 11 months of 1988. In his autumn statement, Mr Nigel Lawson, Chancellor of the Exchequer, forecast a £11bn deficit for 1989.

Further, albeit limited, progress is forecast for 1990 when the deficit is expected to drop to £11.3bn.

Interest rates are expected to still be above 11 per cent at the end of this year and only slightly lower a year later.

Growth in gross domestic product is forecast to slow to 2.7 per cent this year, slightly less than forecast by the Treasury. A growth rate of 2.4 per cent is forecast for 1990.

Manufacturing output is expected to grow strongly in 1989, although less than in 1988, before slowing in 1990. Investment growth is also forecast to show a marked deceleration in both years.

The UK's annual inflation rate is expected to have fallen from the current 6.4 per cent to 5.3 per cent in the last three months of the year. By the end of 1990, inflation is forecast to have fallen to 4.7 per cent.

Details, Page 7

Bonn checks chemical connection

Continued from Page 1

ern governments into further efforts to control exports of materials and technology which could be used to make chemical weapons.

Mr Norbert Schaefer, a Bonn government spokesman, told a press conference yesterday that US suspicions about involvement of West German companies had at first been "vague." They appeared to be based largely on spy satellite photos, showing the building of the plant in what appeared to be a military zone apart from other industrial plants, other officials said.

Other ministerial spokesman confirmed that investigations into Imhausen has been undertaken by the Federal Economics Office in Eschborn, which licences sensitive technology exports, and by the Finance Directorate in Freiburg, which had been checking the company's affairs. No evidence of any irregularity had arisen.

According to the New York Times, the Imhausen concern, which is owned by members of the Imhausen family as well as companies in Hong Kong and Liechtenstein, has been at the centre of an operation to ship US material for the Rabta plant via Asian ports.

Mr Hippenstiel-Imhausen told the newspaper that his company had tried to win a contract in Libya for the manufacture of plastic bags, but was quoted as saying that the company did not have the know-how to help make chemical weapons. "I never was in Libya. I don't even know where it is," he was quoted as saying.

Bonn's efforts to stop companies assisting illicit manufacture of chemical weapons abroad is hampered by lack of a clear-cut regulatory framework. A number of West German companies have been pinpointed as helping Iraq build up its chemical weapons production during the war with Iran, but Bonn's efforts at prosecution failed because the companies were not breaking the law.

Bonn wants to bring in legal obligations to force exporters to declare deals involving chemical components which could be used for weapons as well as for innocuous civilian purposes. Although this involves difficulty in identifying the components which should be put on to a chemicals "blacklist," the question will be discussed at a cabinet meeting on January 10.

Opposition welcomes Venezuelan move

Continued from Page 1

zuela's Finance Minister, said the moratorium would affect only principal payments on government debt owed to international banks covered by a restructuring agreement signed in 1986, and principal payments on government obligations to banks in effect as of March 22 1983, which were not restructured. The 1986 agreement granted Venezuela improved repayment terms on $21bn of its public debt.

Excluded from the moratorium, scheduled to begin on January 17, are the following categories: loans to the Venezuelan government from multilateral and bilateral agencies; principal payments on government bonds issued outside Venezuela; loans granted or guaranteed by foreign government agencies; trade debt, including letters of credit, and loans made after 1983.

Stephen Fidler in London adds: Venezuela has been almost alone among the large debtors in Latin America to continue to repay significant principal on outstanding debt. Venezuelan officials have argued that this, and its timely repayment of interest obligations, had brought it few benefits from international creditors.

Attempts last autumn to arrange a new financing from banks were rebuffed and the Government, its financial squeeze worsened by falling oil prices and an overvalued exchange rate which encouraged capital flight, was forced to seek alternatives. It arranged a $1bn pre-export financing for oil sales through Bank of America and Salomon Brothers, but its implementation has been delayed.

WORLD WEATHER

THE LEX COLUMN

A cautious welcome for the new year

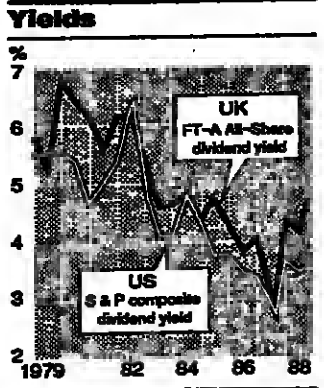
The world's financial markets begin 1989 in a much less nervous mood than they embarked on 1988. A year ago memories of October 1987 were still fresh, the dollar appeared to be in free-fall and the equity markets were haunted by fears of a world recession, or even a depression. A year later these fears have proved unduly alarmist so far, even though some of the problems which helped knock more than a third off the value of major share prices in the second half of 1987, remain untended.

The world economy has performed far more strongly than anyone dared anticipate; inflationary pressures remain surprisingly subdued although the UK economy is an exception; and while a slowdown in global economic growth is under way, the expectations are for a bumpy landing rather than a Crash of '89. This explains why the returns on equities last year outstripped bonds and why cash has proved a dull investment when compared with the profits to be had in many overseas stock markets and property.

However, the FTA-All share index has now risen for 12 years in a row, and the S&P 500 index has risen for seven straight years, both of which must be some sort of record. Last year, the total return on US equities was 17 per cent, compared with an average of around 10 per cent a year for the last 60 years, and the real return on UK equities was not far short of the 5.4 per cent average over the same period. Perhaps October 1987 was nothing more than a temporary bubble in a prolonged bull market, but the chances of international stock markets performing as well in 1989 as they did last year, are remote.

Monetary squeeze

The economic risks are well known. The industrialised countries are enjoying their longest period of uninterrupted growth since the Second World War and although the world's biggest economy is running up against capacity constraints, inflation in most of the other major economies remains surpisingly low given the late stage in the economic cycle. The significant tightening in monetary policy around the world in 1988 with short-term rates climbing above long-term rates in many cases, underscores the authorities' determination to contain inflation. With luck the US and UK economies, where the symptoms of economic excess are most visible, will respond to the financial squeeze without slipping into recession, but the longer



the period of pain the more traumatic the outlook for equities.

US dollar

There is always an outside chance of some external shock, such as an unexpected jump in oil or food prices, which could threaten the 3¼ per cent growth and 4 per cent inflation rates forecast for the OECD countries this year, or a surprise collapse in the Tokyo stock market, which rose by 40 per cent last year. However, the real threat to this reasonably reassuring economic picture will probably come from the US where a new president takes office in less than three weeks' time. While there is considerable debate on whether the current size of the US budget deficit is really a major problem, there is little doubt that the improvement in the US trade deficit has stalled and the Japanese and West German trade surpluses are set to rise further. This has worrying implications for the dollar despite its recent burst of strength.

The simplest way of correcting the US trade imbalance, but not the budget deficit, would be a short US recession. It is probably no accident that the majority of recent US recessions have occurred in the early part of a new president's term and the stock market has fallen in six out of the last 10 post-election years. By moving quickly to attack America's economic ills, Mr Bush would have a better chance of winning a second term but this could cause Wall Street some problems in the short term, and it would be surprising if the ripples were not felt in other major stock markets even though their local economic problems are far less pressing.

Mr Bush's room for manoeuvre is considerably smaller than that of his predecessor whose two terms coincided with a staggering rise in the indebtedness of both the public and private sectors in the US. The surge in US leveraged buy-outs, where banks have lent an estimated $150bn, when combined with the $40bn cost of rescuing insolvent US savings and loans in 1988 and the long-festering Third World debt crisis, present the new Administration with a dangerous policy dilemma. Further sharp rises in interest rates, which might be necessary to bolster foreign confidence in the dollar, could cause severe financial problems for some borrowers with the result that they might precipitate the recession the authorities are trying to avoid. Of course, it is easy to overdo the gloom and underplay the more positive aspects such as the reduction in political tensions around the globe. Nevertheless, the gap between success and failure of US economic management over the next few years appears to be narrower than for a long time, and perceptions about the eventual outcome are likely to weigh heavily on investor sentiment in the year ahead.

Asset mix

Against this background, investment success in 1989 will depend much more on selecting the right mix of assets, rather than choosing individual shares. For a UK investor, the big surprise of last year was the strength of overseas equities, where returns were more than twice the average, and property, where returns were over three times the norm. It is difficult to see how these two areas can continue to sustain this sort of out-performance in the year ahead, so the key decision is likely to be on getting the balance right between domestic equities, fixed interest and cash.

Given the very high real rates of return which are being offerred in most bond markets, a good case can be made for fixed interest paper, especially in countries where inflation is under control and interest rates are permitted to fall over the next 18 months. However, the UK government bond market does not look as much of a bargain as some of its rivals in continental Europe and it is possible to make a more convincing case for UK equities. UK corporate earnings should rise by 10 per cent this year, and a prospective yield of over 5 per cent is the highest in nearly a decade and looks reasonably good value compared with long gilt yields of 9.4 per cent. Fund managers are right to be cautiously optimistic.

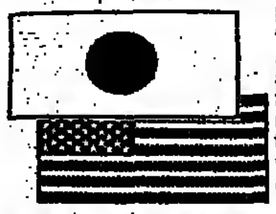
FINANCIAL TIMES

COMPANIES & MARKETS

Tuesday January 3 1989

INSIDE

Japanese groups top the Eurobond charts



It is "top of the pops" time in the Eurobond markets — the annual rankings of firms which dominated underwriting in the sector during the past year. The striking point about the 1988 rankings is that the Japanese houses appear to have cemented their hold on the business more securely than ever, at the expense of American and European rivals. Page 18

A metamorphosis in gilts

The British gilt-edged securities market was profoundly transformed in 1988. With breathtaking speed the Government switched from an issuer of debt to a buyer over and above the normal flow of redemptions or money management. For dealers, the year turned into an enervating war of attrition, and 1989 promises to be little different. Page 17

British predators turn to cash and Europe

Lord Weinstock(left), managing director of Britain's General Electric Company, typifies a major 1988 trend in British takeover strategy through his joint bid with Siemens for Plessey. Trans-European deals became highly fashionable in a year which also produced a swing from paper-financed bids to cash ones, and a rise in highly leveraged offers. Nikki Tait analyses the year's developments. Page 20

Inside out and upside down

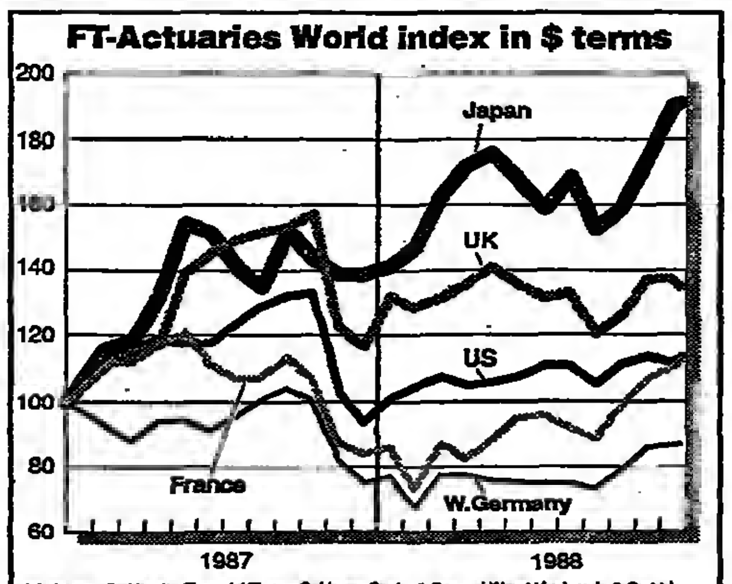
Wall Street's army of fixed income economists have been busy analysing the hot topic for the months to come: the development of an inverted yield curve in the Treasury bond market for the first time since 1982. Historical precedent shows that, when the curve inverts, an economic downturn follows. Janet Bush reports. Page 18

Market Statistics

Companies in this section

Investors go on a European Grand Tour

Hilary de Boerr looks at how world stock markets fared in 1988



Jointly compiled by the Financial Times, Goldman, Sachs & Co. and Wood Mackenzie & Co.Ltd. in conjunction with the Institute of Actuaries and the Faculty of Actuaries.

For equity investors, 1988 will go down as the year of the continental European stock markets.

The region produced some of the best performing bourses in the world, with the FT-Actuaries World Indices showing the continent climbing as a whole by 35 per cent over the past 12 months, in local currency terms.

In addition, Europe saw out a difficult year in style, with many bourses reaching post-crash highs last week. In Stockholm, which jumped by over 59 per cent in local currency terms during the year, Europe produced the only bourse to outperform Tokyo on all the main fronts — in dollar, sterling, yen and local currency terms. The Japanese market, for its part, soared by 40 per cent, according to the FT-Actuaries World Indices.

Yet continental Europe's remarkable buoyancy contrasted sharply with a lacklustre performance by the US markets, where the Dow Jones Industrial Average climbed by just under 12 per cent, and a dismal one in the UK, where the FT-SE 100 index ended a mere 5 per cent up. What then, lies behind these sharply differing performances?

Certainly, when 1988 opened the prospects for equities around the world were generally gloomy. In the wake of the stock market crash of October 1987, the predictions were for slow global economic growth and only small gains in corporate earnings. The dollar was weak, the twin US budget and trade deficits loomed large, and a post-crash fear of all things associated with equities conspired against stock markets.

Six months on, the picture was rather brighter. The main economies were growing respectably, corporate earnings growth was often coming in at double the original forecasts, and the dollar and the Dow Jones Industrial Average were on the rise.

However, two of the world's three major markets, New York and London, never managed to shake-off their post-crash nerves. On Wall Street, despite a rise last week to within a whisker of the market's post-crash high, share prices generally moved in a narrow band in low volumes, amid alternating fears that the economy would slump into recession or overheat.

The London market, when not obsessed with tracking Wall Street, was overwhelmed with domestic economic worries, notably mounting concern about the size of the trade deficit, rising inflation, a consumer spending boom and then a series of sharp increases in interest rates to choke this off.

The FT-SE 100 Index, which began the year at 1712.7 and ended at 1793.1, traded throughout the twelve months in a very narrow band, usually finding support around 1740 and finding it hard to sustain a rise above 1840.

Four main factors would appear to underlie the much stronger performance of the continental bourses. First, they were recovering from a sharp fall in 1987, when the region's equity indexes lost about 30 per cent. That was in sharp contrast to the UK, which, despite the crash, managed to end 1987 marginally higher than it began the year.

Warburg Securities, the UK securities house, has consequently dubbed 1988 "the year of the value investor" — he who based his investment decisions on the fact that a particular stock or market was undervalued.

Second, economic growth on the continent has been far better than expected. For example, at the start of the year, the most pessimistic forecasts suggested that West Germany would record economic growth of 0.75 per cent; now the estimates are for 3½-4 per cent. Corporate earnings growth in France was forecast at the start of the year at about 10 per cent, and that was seen as optimistic. The full-year estimate is now et well over 20 per cent. Overall, continental earnings growth, when adjusted for inflation, is at least on a par with Britain.

Third, interest rates on the continent have fallen. Those in West Germany are back to pre-crash levels, while those in the UK are a third higher.

Finally, the continental bourses managed to decouple domestic sentiment from that of Wall Street, with the positive economic pictures in individual European markets eclipsing global concern about equities and specific worries about the dollar, inflation and interest rates.

As one European investment strategist put it: "With the general improvement in equity sentiment, residual fears and doubts about the crash began to recede as we moved through the year, so the emphasis could switch from international concerns to domestic situations."

Tokyo, a market unto itself in terms of accounting practices and government involvement, both opened and closed the year on a high note, thanks to a strong domestic economy and currency. But the investor had to be selective: most of 1988's gain came in the first four months. After that, worries over interest rates and inflation took hold, followed by concern over the declining health of Emperor Hirohito and the negative impact of the Recruit Cosmos share scandal.

In retrospect, Mr Andrew Ballingal, investment strategist at Barclays de Zoete Wedd (Tokyo), believes foreign investors managed to read the Japanese market well.

Smaller, more exotic equity markets also produced surprises in 1988, and none more so than Taiwan. It enjoyed a bull market which seemed unstoppable until September, when the Government announced it was reimposing a capital gains tax from the start of this year. The deliberate cooling off move sent the market plummetting for several sessions. But by the year end Taipei share prices were still more than double their level at the start of 1988.

But for those who prefer to stay in safer, mature economies, there was nothing in 1988 to beat some of the European countries: Sweden's star performance was followed by France and Denmark, which, according to the FT-Actuaries World Indices, saw jumps of 56 per cent

Confrontations that are waiting to happen

By Anthony Harris in Washington

"Let us suppose, purely of course for the sake of illustration," said Mr Joseph Minarik, "that the projections show a need for a non-negative adjustment in the steady-state fiscal stance...if anyone has a better circumlocution, I am open to suggestions." At the annual meeting of the Allied Social Science Associations in New York last week, doctrinal disputes were being conducted with exquisite good manners. It won't last, though.

"I'll be out there, demagoguing," as Mr Bush has conceded in a television interview; he knows he will have to compromise in the end, but his relish for politics as a contact sport is becoming quite appealing.

Equally, Mr Minarik, who has just joined the staff of the Joint Economic Committee of Congress, will speak quite plainly when he drafts the JEC's comments on President Bush's policies.

The academic calm of the ASSA conference ought to make the real issues clearer; but it is impossible for one person to report on this jamboree. Fifteen topics were discussed simultaneously, in meetings spread through four hotels; my own sampling of the meeting was no more representative than the average opinion poll. It was enough, though, to show some sharp contrasts between economics and politics.

The budget balance was probably the least contentious subject at the conference; but politically, that means that it will be all the harder to resolve. It was almost impossible to find a speaker who seemed to believe in the proposed flexible freeze, though a few were prepared to argue that a good deal too much fuss is made about the deficit. The consensus, though, was clear: the Federal government is responsible for undermining the national savings rate through its own dissaving, it must stop doing so, and will be compelled to raise taxes to achieve this.

The details of tax strategy were much more controversial. For example, Mr Michael Boskin — now confirmed as Mr Bush's chief economic adviser — favours tax breaks to encourage personal saving. He sees this as a quicker (and more popular) way to correct the US balance than relying purely on government economies. However, one meeting which considered savings concluded that there was no known incentive which had been shown to work.

Indeed, any backsliding on the structure of taxes introduced in 1986 is likely to provoke some bitter comments in the newspaper columns so many professional economists write to help out their academic salaries. The general aim of the reform, to improve incentives by cutting marginal tax rates, and pay for the cuts by reducing tax reliefs, was enormously popular in the profession.

When Congress was finished with it, the reform was not as radical as the original US Treasury proposals, fondly known to economists as Treasury One; but it was still a great deal nearer to the academic ideal than anyone had dared to hope. The appetite has grown with feeding: they would like to go further next time. Boskin's ideas, which would create new tax exemptions, are not the only threat: during the campaign, Mr Bush seemed to have a tax exemption to answer every problem from child care to pollution.

Mr Bush also wants to cut capital gains tax, and again the profession is angry

"It's appelling," one columnist observed to me. "Doesn't the man realise what his own Administration achieved?" It is very likely that he does not, because politicians anywhere to the right of centre seem to find it very hard to think logically about tax exemptions.

Mr Iain Macleod was one of the most intelligent and least doctrinaire of British Conservatives; but during the six weeks in which he was Chancellor before his sad, sudden death, he was immovably convinced that he was saving public spending by abolishing Labour's scheme of investment grants, and substituting tax reliefs. This folly went into law, commemorated in an annual footnote to the White Paper on public spending explaining that the change had produced no savings.

Mr Bush also wants to cut capital gains tax, and again the profession is angry. The Treasury logic was to tax capital gains and capital income at the same rate, and economists applauded. They dislike the proposed change because it too will encourage avoidance; and they were also ready in New York to "prove" that the change would not work. Where policies are concerned, the wish often appears to be father to the econometric "proof". The impression in New York was one-sided, but a different conference chairman, selecting a different set of speakers, might have produced an equally solid "consensus" on the other side.

Of course, not all economic disagreements are political; but even non-partisan analysis of the past raises awkward questions. Any prescription for correcting the US external balance ought to be based on a clear answer to the central question: why did personal saving collapse under President Reagan's regime, despite policies designed to encourage it? A meeting on this topic produced the answer that the time trend changed. This is a pure cop-out; it says in effect that there was a change because there was a change.

This sort of "answer" might have appealed to Gertrude Stein — "A rose is a rose is a rose" — but is precious little help to those wrestling with real problems. The economists did seem to be getting a little further on questions like exchange rate management and banking regulation; but even here their answers are hedged and tentative. The meeting left me with a strong feeling that politicians will fumble their way to solutions in their own fashion, and the economists will only be able to analyse their mistakes after the event, when the statistics are in.

The most encouraging speeches to be heard were those from civil servants and Congressional staffers which suggested that they have finally broken one of the worst habits of the Reagan era, evasiveness. There were crisp descriptions of such follies as the "rescues" of bankrupt thrift institutions which are designed only to keep the losses off the Federal balance sheet for another year, of misleading defence budgeting and misleading economic statistics.

This suggests that the Bush administration and the Congress will start their policy-making from a blunt description of the facts and of the alternatives, which must be a giant advance from the evasions and moonshine which often constituted Cabinet briefings in the last eight years. That will hardly make life peaceful; but all the same, if Mr Minarik's little joke proves to be the last of the circumlocutions, 1989 will be off to a good start.

Economics Notebook

UK belt tightening hits home

MANY CLAIMS have been made for a British home owning democracy.

Owning a home supposedly gives people a stake in the country. Servicing the mortgage instills the individual with a sense of financial responsibility. Home ownership, when it involves the sale of council houses to former tenants, may even break down the them-and-us attitude that used to bedevil British industrial relations.

Now Mr Nigel Lawson, a Chancellor who has done more than most to propagate ownership in general, has added another less welcome attribute to home ownership. It has become a key instrument of Government economic policy.

Last week's mortgage rate increases were the inevitable, if belated, result of the late November increase in bank base rates to 13 per cent. That one percentage point base rate rise followed news that Britain's current account balance of payments deficit in October had reached a record £2.4bn ($4.3bn).

Although the Treasury would probably disagree, the October deficit — since revised upwards to £2.5bn — can be interpreted as a clear sign that Britain is living beyond its means. Last week's increases in mortgage rates to between 13.5 per cent and 13.75 per cent showed that home owners must bear the brunt of bringing the economy back towards equilibrium.

This is because home ownership has played an important part in promoting unsustainably strong growth of domestic consumption in Britain. A fluid market for domestic properties, served by an aggressive, deregulated financial sector and hallmarked by sharply rising house prices over the past three years has encouraged a large-scale leakage of wealth from the housing market into private consumption.

Mr Michael Saunders, a senior economist with Greenwell Montagu Gilt-Edged, has estimated that of roughly £35bn of loans made for house purchases last year, £15bn, representing around 5 per cent of personal disposable income, may have leaked from the housing market through factors such as people borrowing more than they needed to buy their homes or by home owners selling inherited properties.

These developments have been reflected in a marked decline in the savings ratio of British households and a sharp increase in household debt in relation to income during the 1980s.

Figures from the Organisation for Economic Cooperation and Development suggest that Britons now save less of their disposable income than the citizens of the other Group of Seven leading industrial countries.

In 1980, Britain was in the middle of the group with a saving ratio of 13.8 per cent. By last year, the UK savings ratio had slipped to 3.75 per cent from 5.4 per cent in 1987, falling below the notoriously low US savings ratio which rose to an estimated 4 per cent in 1988 from 3.3 per cent in 1987.

In 1987, Britain overtook the US to top the G7 list for household debt in relation to annual income. According to the OECD, total liabilities of British households reached 1.04 times annual disposable income in that year, compared with debt-income ratios of 0.97 in the US, 0.68 in France and 0.17 in West Germany.

Among the G7, Britain also had the highest ratio of mortgage debt to income: 0.68 in 1987 compared with 0.6 for the US and only 0.02 for West Germany.

There is a school of thought — espoused among others by Professor Patrick Minford of Liverpool University — that the current account deficit and the fall in the savings ratio do not matter too much. The argument is that Britain is experiencing "an old style development process" where profits rise, savings rates fall as local income prospects rise faster than actual incomes, and capital flows into the country to take advantage of the good returns once local savings are exhausted.

However, the decline in personal savings ratios and the rise of debt-income ratios in countries like the US and Britain have caused concern among OECD economists. In its latest Economic Outlook report, the 24-nation OECD recommended that member governments should consider planning for budget surpluses to offset weak private savings or act to eliminate tax distortions that discourage thrift.

The problem with such advice for Mr Lawson is that Britain is already heading for a massive budget surplus of at least £10bn in the current financial year. Although the Government will announce details of its Capital Bond for savers this week, there are no obvious tax loopholes that he can close to encourage savings in the short term.

As a result, the home owner with a mortgage becomes the agent of change in the economy. And for the growing number of borrowers whose mortgage rates are adjusted yearly, the new rates to be fixed between now and April will surely have a greater impact on the family finances than any surprises in Mr Lawson's next Budget.

Peter Norman.

THIS WEEK

US LABOUR market statistics are this week likely to prove the first major focal point for financial markets in 1989, possibly influencing the direction of the dollar.

Recent month's employment and unemployment figures have been taken as an indicator of the strength of economic growth — and as such have influenced speculation about interest rate trends.

Figures released last month showed an unexpectedly large rise in employment in November after some months of slack growth, leading to speculation about an imminent tightening in monetary policy.

Friday's statistics will be the first major indicators of the strength of the US economy in December.

The consensus of analysts forecasts compiled by MMS International, the financial research company, is for non-farm payrolls to rise by 250,000 compared with a rise of 465,000 in November.

In West Germany, terms of the latest batch of security repurchase agreements will be announced today, while the Bundesbank council meets on Thursday. Analysts will be looking for any signs of modifications in monetary policy but no changes in interest rates are expected to be announced.

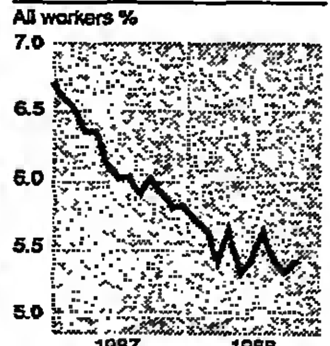
UK figures for official reserves in December are published tomorrow and will provide a rough guide to the extent of Bank of England intervention on foreign exchange markets.

November's figures showed an underlying rise of $428m, almost certainly reflecting intervention to support the US dollar. Total reserves stood at $51bn, giving a comfortable cushion that the Government could use if necessary to stop the pound depreciating.

The consensus of analysts forecasts is for this week's figures to show a underlying rise of $500m.

On Thursday, the Central Statistical Office publishes figures for personal income and expenditure in the three months to September. These will show not only the buoyancy of spending by the personal sector of the economy but also the rate of saving.

US Unemployment



Previous figures have shown the proportion of income saved falling to low levels and the latest figures will be analysed for any signs of an increased propensity to save.

In France, a round of New Year messages includes statements by President Francois Mitterrand on Thursday and Mr Michel Rocard, the Prime Minister, on Friday. Both will set out hopes for 1989 which, although unlikely to contain much economic content, could give an insight into French Government thinking.

Other events and statistics (with MMS International consensus of analysts forecasts in brackets) this week include:

Today: US construction expenditure in November (+0.4 per cent).

Tomorrow: US manufacturing orders and inventories (+0.4 per cent). UK Bank of England figures on capital issues and redemptions in December. Department of Employment publishes Employment Gazette.

Thursday: UK industrial and commercial companies profits in three months to September. US auto sales in December.

Friday: Canadian labour force survey for December.

EUROBONDS

Japanese strengthen underwriting table lead

DESPITE protestations that what really counts is profitability, Eurobond houses clearly still care about the league tables – the annual rankings of firms which dominated the Eurobond underwriting business over the past year.

Being number one, or at least in the top 10, is important for underwriters trying to gain clients which have always previously used the services of a competing firm. UBS Securities, for instance, lead managed more Canadian dollar bonds in 1988 than any other firm, including the Canadians, and threw a party to celebrate.

On this and the next two pages, FT writers look back on 1988, and ahead to this year, in three key areas of world capital market activity – Eurobonds, UK gilts and the US bond market.

What is striking about the 1988 league tables overall is that the Japanese houses appear to have more securely than ever cemented their hold on the business, with five firms – four securities houses and a bank – holding places among the top 10 underwriters. The ability of the four securities firms to hang on to their top slots seems even more impressive when one considers that in 1988, issuance of Euroyen bonds fell sharply to $15.25bn from $22.75bn in 1987.

Nomura Securities remains in first place overall, lead managing 135 new issues totalling $17.68bn. However, its market share has slipped slightly to 10.3 per cent of the business from 13.38 per cent in 1987.

While Credit Suisse First Boston and Deutsche Bank occupy second and third places respectively – unchanged from 1987 – Daiwa Securities has risen to fourth place, up from fifth last year. It led 80 new issues totalling $9.43bn for 5.49 per cent of the market.

Yamaichi and Nikko were fifth and sixth respectively, lead managing $7.27bn and $6.87bn in new issues apiece. And IBJ Securities has moved up into 10th place from 11th lead managing 48 issues valued at $5.50bn for 3.21 per cent of the business. Total Japanese market share exceeds 30 per cent.

Still, questions remain about the extent to which the Japanese have penetrated the traditional markets of the Eurobond business. Have these houses genuinely lured away the borrowers and investors that were once the exclusive property of American or European houses?

In examining the records of the Japanese houses in 1988, the extent to which some are dependent on the Japanese equity warrant bond business is startling. Equity warrant bonds were 75.5 per cent of Yamaichi's new issue business, 72.1 per cent of Nikko's, 58.7 per cent of Nomura's and 57.9 per cent of Daiwa's. In 1988, equity warrant bond volume totalled $28.4bn, up from $23.7 in 1987.

Equity warrant bonds, the bulk of which are issued by Japanese companies, have for the most part, been hugely profitable in 1988, although some hefty losses were chalked up in the glutted markets of late summer and early fall. Their success in 1988 largely reflects the strength of the Tokyo stock market which ended the year at a record high, compared with relatively uninspired performances on the US and UK stock markets.

But some market pundits argue that Japanese equity warrant bonds are not really a Euromarket product. Japanese companies are not allowed to issue them domestically and so, to skirt regulations, they are issued abroad. The equity warrants are quickly detached from the bonds themselves and most eventually wind up back in the hands of Japanese investors. The bonds, meanwhile, are repackaged into floating rate securities and purchased by Japanese banks as funding instruments.

Still, Eurobond houses are keen to get into the business. Merrill Lynch has just joined as a secondary market maker in equity warrants and Kleinwort Benson has plans to do so shortly.

The Japanese firms argue that their ability to bring this type of security to the market has helped them gain market share in areas that have not been traditionally theirs. US and European firms have been invited into the underwriting syndicates for the profitable equity warrant bonds on the understanding that the favour will be returned.

As a result, the Japanese houses increasingly show up in underwriting syndicates for borrowers with whom they have had no prior relationship. And European and US houses are seen joining syndicates for Japanese-led issues for borrowers and in currencies that have no particular attraction for Japanese investors. The syndicate chief at one Japanese firm conceded: "The equity warrant market has been important ammunition for us."

Aside from deeper entrenchment of the Japanese firms in the Eurobond markets, the 1988 league tables show only two US firms in the top 10 underwriters, down from three in 1987. But despite dark speculation of further retrenchment by US firms in late 1987, several seem to have thrown themselves into the business with renewed vigor. Six US houses are in the top 20, up from four in 1987. And Merrill Lynch, in seventh place in 1988, has made a dramatic comeback from its standing in 21st place the year before. Also, Bankers Trust is listed in 12th place for 1988, up from 41st place in 1987.

But syndicate officials say that increasingly, league tables tell only part of the story. In 1988, firms concentrated efforts on devising complex securities to suit the special needs of a handful of borrowers for a number of deals that ended up as private placements. For instance, First Bank System of Minneapolis and CSFB engineered a repackaging of perpetual floating rate notes – which remain unwanted on the books of Japanese banks – into a $100m 30-year private placement.

Also, Royal Bank of Scotland, Credit Lyonnais, and Banque Nationale de Paris have privately placed securities intended to boost their primary capital for regulatory purposes. An Australian and a New Zealand bank are said to have privately placed similar securities.

BNP has reluctantly withdrawn its own $400m private placement because international bank regulators have objected to classifying proceeds as primary capital. But its underwriter, Morgan Guaranty, is said to be looking at ways to recast the securities to meet regulators objections.

The ability to devise complex securities, matching needs of particular borrowers and lenders, is likely to be an increasingly important, albeit less visible, business for Eurobond houses in coming years. Mr Nobuo Funabashi, executive director at Nomura Securities, said: "It may be more important to develop a reputation for financial engineering than to show league table status in order to get new business."

Meanwhile, the league tables underscore the increasing demand from investors for larger, more liquid issues. The average size of straight dollar Eurobonds rose to $175m in 1988 from $154m in 1987. Even among currencies targetted at retail, rather than institutional clients, the trend is evident. For instance, the average size of Canadian dollar Eurobonds rose to C$80.63m from C$63.8m in 1987.

In terms of popularity, the dollar remains the single most common currency for Eurobonds, with sterling in second place in 1988.

The star performers for the year were the retail-oriented currencies, Canadian and Australian dollars and the Ecu. The success of those three currencies in many ways is a testament to the maturity and depth of the swaps market – there are precious few natural borrowers in those instruments.

The Canadian dollar, in particular, attracted the attention of retail investors in West Germany, Switzerland and the Benelux countries who viewed it as a higher-yielding and more stable proxy for its US counterpart. For most of the year, the bonds offered a yield spread of 100 to 150 basis points over that of US dollar-denominated issues while the currency continued to gain against the US dollar.

New issue volume in Canadian dollars in 1988 totalled $13.22bn, more than double the $5.99bn in 1987.

Norma Cohen

TOP EUROBOND LEAD MANAGERS

Manager	1988 $bn	Rank	%	Issues	1987 $bn	Rank	%	Issues
Nomura	17.68	1	10.30	135	18.05	(1)	13.38	114
CSFB	13.89	2	8.09	82	9.49	(2)	7.03	77
Deutsche Bank	12.23	3	7.12	84	8.22	(3)	6.09	69
Daiwa	9.43	4	5.49	80	6.69	(5)	4.96	69
Yamaichi	7.27	6	4.24	61	6.50	(6)	4.82	65
Nikko	6.87	6	4.00	61	7.11	(4)	5.27	54
Merrill Lynch	5.95	7	3.47	32	1.52	(21)	1.16	15
J.P. Morgan	5.60	8	3.26	34	4.14	(10)	3.06	42
Banque Paribas	5.52	9	3.22	45	4.15	(9)	3.07	43
Ind.Bank of Japan	5.50	10	3.21	48	4.07	(11)	3.01	37
UBS	5.45	11	3.17	47	3.19	(13)	2.36	28
Bankers Trust	5.34	12	3.11	49	0.65	(41)	0.48	10
Salomon Brothers	4.92	13	2.87	61	4.35	(8)	3.23	34
Warburg Secs.	4.54	14	2.65	23	3.65	(12)	2.71	34
Goldman Sachs	3.88	15	2.26	25	2.10	(18)	1.56	19
Dresdner Bank	3.80	16	2.21	24	2.42	(15)	1.79	21
Morgan Stanley	3.62	17	2.11	30	5.05	(7)	3.74	35
Commerzbank	3.45	18	2.01	30	2.74	(14)	2.03	28
Swiss Bank Corp.	2.81	19	1.64	25	2.42	(16)	1.79	28
Hambros Bank	2.68	20	1.56	46	1.45	(22)	1.08	37
Industry totals	1173.08	1481			135.86			1305

† Preliminary Figures – Full credit to book runner

Source: IFR BONDBASE

EUROBOND ISSUES BY CURRENCY

1988 Rank	Currency	Total raised ($bn)	No. of issues	1987 Rank	Total raised ($bn)	No. of issues
1	US$	69.85	448	1	59.66	491
2	Sterling	23.67	135	3	14.81	120
3	D-Mark	23.03	185	4	14.69	129
4	Yen	15.25	198	2	22.75	161
5	C$	13.22	164	7	5.99	94
6	Ecu	11.22	90	6	7.52	71
7	A$	8.17	149	5	9.01	193
8	Guilder	2.62	33	8	2.53	32
9	FFr	2.36	19	9	1.67	17
10	Lire	1.54	16	12	0.72	10

Source: IFR BONDBASE

Frans Maas buys freight forwarder

By Laura Raun in Amsterdam

FRANS MAAS Beheer, a medium-sized Dutch transport group, has acquired Transmarcom of Belgium, a freight forwarding company, in a bid to enlarge its European logistics network.

The purchase price was not disclosed, but Transmarcom has an annual turnover of about Fl 65m ($32m) and a workforce of 112. The much larger Frans Maas has sales of Fl 1.3bn and employs 2,370.

Transmarcom will operate as an independent company with its own identity within the Frans Maas group. The Belgian company has important sea and air-freight forwarding operations in Antwerp, where it is based, and other branches throughout the country.

Frans Maas is based in Venlo and is a holding company for 38 enterprises in 14 countries, including Belgium, where it already has freight forwarding activities. It is involved in transport, international forwarding, storage and logistics.

The Netherlands' transport industry is hoping to make gains in the European internal market because of the country's big ports, airports and well-developed transport infrastructure.

● **Nationale Nederlanden**, the big Dutch insurance company, said yesterday in a New Year letter to staff that its 1988 sales rose to Fl 19.5bn from Fl 17.2bn in 1987, Reuter reports.

The company maintained its forecast of at least an unchanged net profit per share of Fl 6.09, implying a minimum 7 per cent rise in net profit from 1987's Fl 703.1m due to share dilution.

The definitive figures will be published on April 5. Mr Coos van der Meulen, board secretary said premium income on life insurance had risen 21 per cent to Fl 7.5bn from Fl 6.2bn.

Premium income on damage insurance rose 13 per cent to Fl 5.1bn from Fl 4.5bn.

● **Assurantieconcern Stad Rotterdam**, another Dutch insurance company said it estimated 1988 net profit up by 10 per cent or a bit more from the 1987 level of Fl 56.1m.

"All in all, 1988 has been a year that we look back on with pleasure," Mr Luck van Leeuwen, chairman, said in a New Year statement to staff.

● **Rabobank Nederland**, the second largest bank in the Netherlands, said it expects its 1988 net profit to be 9 to 10 per cent up at around Fl 760m from a 1987 figure of Fl 692m.

Gross profits are seen at Fl 1.635bn, also up 10 per cent from Fl 1.487bn in 1987. It publishes full results next month.

Paribas sets up finance for BAe

By Michael Donne, Aerospace Correspondent

BANQUE Paribas (London) has arranged £60m in operating lease finance on behalf of British Aerospace, the UK aircraft manufacturer, to cover up to eight advanced turbo-prop (ATP) twin-engined airliners to be used by British Airways.

The funds were provided through IBOS Finance, which is part of the NWS Group.

Following signature of the agreements late last month, the first ATP was delivered to British Airways, which is to use the aircraft on its domestic scheduled service networks in the UK and in West Germany.

EUROMARKET TURNOVER ($m)

Primary Market	Straights	Conv	FRN	Other
US$	409.5	0.0	374.9	3,089.0
Prev	2,922.1	0.0	3,193.1	8,967.6
Other	560.2	0.0	3.6	1,498.8
Prev	3,278.0	0.0	1,302.1	1,440.5
Secondary Market				
US$	6,346.7	784.1	2,998.3	2,797.1
Prev	13,882.4	984.2	3,092.0	5,330.8
Other	9,742.2	820.3	1,758.4	14,098.3
Prev	16,128.7	1,054.3	3,876.5	23,768.8

	Cedel	Euroclear	Total
US$	5,807.6	10,962.0	16,769.6
Prev	12,294.2	24,678.0	36,972.2
Other	12,191.7	16,280.1	28,471.8
Prev	24,435.2	26,493.7	50,928.9

Week to December 29, 1988

Source: AIBD

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book runner	Offer yield %
US DOLLARS							
Sparekassen SDS♦	30	1991	2	9⅞	101⅛	Sanwa Int.	9.233
IMI Bank (Int.)♦	250	1990	1	9½	100⅞	IBJ Int.	8.550
AUSTRALIAN DOLLARS							
Mitsubishi Bk A'tralia♦	40	1992	3	(d)	100.10	Mitsubishi Finance	-
Swedbank(e)♦	100	1994	5	7.255	101⅞	IBJ Int.	8.800
D-MARKS							
WGZ Int. Finance(b)♦	200	1997	8	5⅝	101¼	Trinkaus & Burkhardt	5.428
Hypobank Int.♦	100	1994	5	5¾	100½	B.Hypo und Wechsel Bk	5.633
Deutsche Fin.(N'lands)♦	750	1994	5	5¾	101⅜	Deutsche Bank	5.429
Volkswagen Int.Finance♦	200	1994	5	5½	101	Dresdner Bank	5.267
DANISH KRONER							
Fin. for Danish Ind.♦	250	1992	3	9	101½	Den Danske Bank	8.414
YEN							
World Bank (a)♦	50bn	1998	10	5	101	Nomura Secs.	4.871
DFC Overseas Inv.♦	5bn	1993	4	4.9	101⅞	Yasuda Trust	4.379
Swedbank‡♦	7½bn	1994	6	(c)	100½	Mitsubishi Finance	-
Crediop Finance♦	12½bn	1993	4½	5	101⅞	IBJ Int.	4.523

*Not yet priced. **Private placement. ♦With equity warrants. §Convertible. ‡Floating rate notes. ♦Final terms. a) Daimyo bond. b) Repaid at 105 January 1997. Investors put at 100 1994, 101¼ 1995 and 103½ 1996. c) 55bp under Japanese long-term prime rate. d) Australian 3-month bank bill rate minus 50bp. Put from July 1989. e) Redemption in yen and A$. Additional A$100m on tap. Note: Yields are calculated on AIBD basis.

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

GILTS

Cautious optimism after year of radical change

FEW years have witnessed so profound a transformation of the gilt-edged securities market as 1988. With breathtaking speed the Government stopped being an issuer of debt and became a buyer of that debt over and above the normal flow of redemptions or market management.

At the beginning of last year the market was preparing itself for the last of the three "experimental" auctions of gilts; this month the market will participate in the first "reverse auction" of gilts which will involve a competitive sale to the Bank of £500m of short-dated stocks.

The process of redeeming that part of the National Debt in the form of gilt-edged securities will continue into the 1989-90 financial year and possibly the year after that. This is a development of major consequence for the market, its 23 primary dealers, the investment institutions which they serve, and the debt market in London generally.

If 1987 was about getting leaner and more aggressive for the battle to come then 1988 was about adjusting to an enervating war of attrition. The promise of 1989 is not much different. Of one thing we can be certain: there will be fewer than 23 primary dealers this time next year.

Despite the addition to the primary dealers ranks of Nomura Securities and Daiwa Securities, there were two significant withdrawals from the market last year: Citicorp in June and Morgan Grenfell in December. Both withdrew because of the poor prospects for the market and after a hard-headed assessment of the likely returns on capital and effort employed. As one Morgan Grenfell executive noted, the market was "lousy" and its future did not seem much better.

Many believe, however, that if they can just last the distance the rewards will accrue. As Mr Stephen Hannah of County NatWest puts it: "Those with staying power, a preparedness to invest and accept losses in the short-term will find they have won a long-term grip on the market."

● A "technical" background which appeared to suggest that the Government would issue few gilts during the year, but which rapidly changed to a perception that it would have to be a substantial net buyer of stock.

This goes some way to explaining why the market traded in such narrow ranges last year, because the conjunction of these two forces produced a near static market for much of the year.

For the time being, therefore, managements of many marginal gilts operations have assumed the air of Pangloss; for how long they can continue to do so remains an open question.

For most of 1988, the gilts market was caught in the grip of two powerful and, for most periods, countervailing forces:

● A poor economic foundation for trading which was prompted by fears of overheating and inflation and which, in turn, led to long-term investors staying away from the market and amassing cash;

Four of the accompanying five yield curves chart the bull and bear phases of the market last year – from the pre-Budget surge, to the summer doldrums, to the rally that was prompted by the growing realisation of the Bank's buying-in activities, and to the final phase of the year when economics began to dominate the market's tone once again.

The magnitude of the rallies and the falls underlines the lack of volatility in the market during 1988: at their worst, yields on long gilts rose to 10 per cent and at their best they nearly broke through 9 per cent. With the exception of 1985, when the FT-A long gilt yield high coupon index fluctuated in a 100 basis point range, 1988 was the worst year for the market in terms of volatility. It compares with a 570 point movement in 1982 (the market's best year of the decade so far) and an average annual movement in long yields of around 240 basis points over the period 1980-87.

Economics dominated the market last year despite the worries of some analysts during the September to October bull phase, when the Bank began buying gilts in earnest, that the market had become impervious to official data. The Bank buying in prevented a worse deterioration than would probably have occurred, but with few exceptions it could not move the market in a direction in which it would not normally have gone.

Last year was a period in which the market remained at best agnostic and at worst very concerned about the conduct of economic policy. The UK economy was exhibiting all the signs of overheating: the trade gap was widening, inflation rising, and interest rates, the Chancellor's chosen weapon for dealing with all phenomena, were first reduced to take the pressure off the pound and then progressively jacked up.

As the New Year begins, similar concerns prevail but there is a greater unanimity among analysts as to the shape of economic developments during the year ahead. There is broad consensus that the Chancellor will achieve the slowdown in activity that he is looking for.

This year's table of six analysts' forecasts shows, with one exception, inflation moving steadily downwards from March to December. Base rates fall by 2 percentage points and, by December, long gilts are comfortably trading below 9 per cent. It is this latter forecast, because of its apparent conservatism, which seems odd.

> "Those with staying power, a preparedness to invest and accept losses in the short-term will find they have won a long-term grip on the market." Mr Stephen Hannah, County NatWest.

According to this consensus view, the gilts market appears to be the place to be in 1989. Although they are not included in this table, the consensus among the six for the public sector debt repayment this financial year and next is £14.5bn and £15.8bn respectively. This compares with redemptions of up to £11bn in 1989-90 and up to £6.7bn in 1990-91.

The two factors which created a stand-off in the market last year – the poor economic fundamentals and the bullish technical position of the authorities – appear from these forecasts to be working in the same direction in 1989. The combination of substantial net purchases of stock by the Bank and an improving economic climate may well be the foundation of a decent year in the market.

The gilts investor, however, does not need a memory longer than a year to be reminded that market conditions can and do change rapidly. Although no one expects a reversal in the position of the Government relative to the market, few can be wholly confident that the "soft landing" for the economy that they present is certain.

It is a feature of the table that most of the "good news" for the market occurs during the second half of the year. Between now and then, the gilts investor has to negotiate the period covering a rise in recorded inflation to around 7.5 per cent and possibly much higher and the Chancellor's March Budget.

The PSDR forecasts of the analysts referred to above suggest that few expect tax cuts of anything but token significance. In this context, the Chancellor's clear liking for Budget surpluses, as betrayed in his FT interview today is probably a pointer in this direction as well.

His words are also suggestive of a growing official liking for the repayment of debt. While it will be many years before the obituary for the gilts market can be written the contemplation of life after gilts is now firmly on the agenda.

● The six securities houses surveyed for the table produced forecasts last year for 1988. Four houses distinguished themselves last year and are deserving of an award.

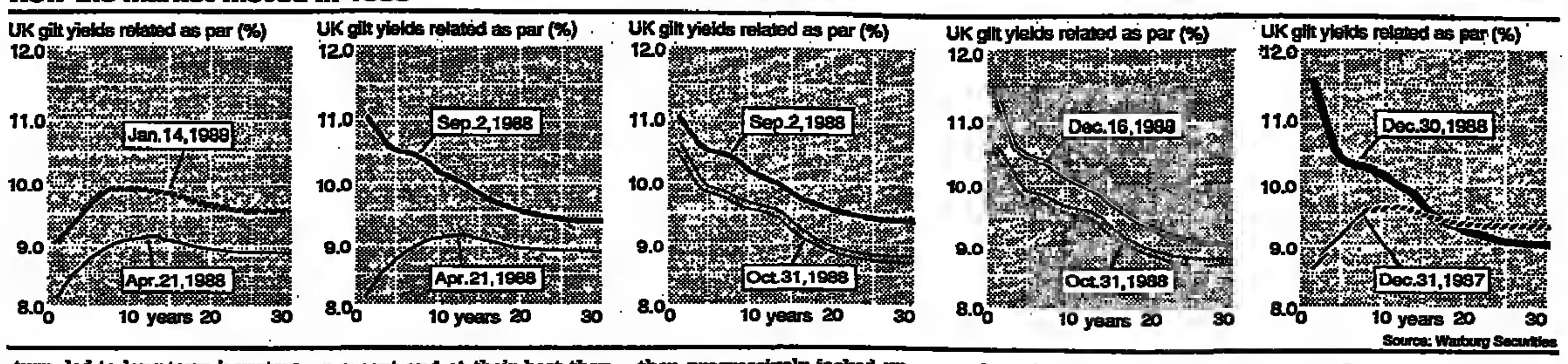
The *Sir Terence Burns Award for Excellence in Economic Forecasting* goes to Shearson Lehman Hutton. Mr Tim Congdon, who has since moved on, compiled the forecast which predicted base rates at 12 per cent and inflation at 6.4 per cent in December.

The *Margaret Thatcher "Only 17 years" Award for Effort* is shared by Hoare Govett and Warburg Securities, for excellence in forecasting the first half of year.

The *Bank of England Let Them Eat Cake Award* goes to Goldman Sachs who, despite getting the economy wrong, managed to pick the market in March and December.

Simon Holberton

How the market moved in 1988



Source: Warburg Securities

HOW THE ANALYSTS SEE 1989

	BZW	Warburg	P&D†	Shearson	Goldman	HG*	Average
RPI (%)							
March	7.30	7.50	8.10	7.80	7.80	7.40	7.66
June	6.90	7.00	7.80	8.20	7.30	7.00	7.31
Dec.	4.50	5.25	6.50	6.00	4.80	4.70	5.29
Base rates (%)							
March	13.00	12.50	13.50	13.00	13.50	12.50	13.00
June	12.00	12.50	12.00	13.00	12.50	12.00	12.33
Dec.	10.00	12.00	13.00	11.00	10.00	10.00	11.00
Long gilts (%)							
March	9.50	9.00	10.00	9.50	9.40	8.90	9.38
June	9.00	9.00	9.70	9.25	9.40	8.75	9.18
Dec.	8.50	8.75	9.50	8.75	8.50	8.25	8.70

† Phillips & Drew, * Hoare Govett

Kirch lifts Springer stake

MR LEO KIRCH, the West German film distributor, now owns more than 25 per cent of the Axel Springer Verlag media group, his spokeswoman said yesterday, Reuter reports from Munich.

Ms Armgard von Burgsdorff said Mr Kirch had informed the Federal Cartel Office that directly or indirectly he owned over a quarter of Springer's shares.

Mr Kirch had a 10 per cent holding in Springer registered in his own name. The balance of his stake was registered in the name of other shareholders.

The Cartel Office said in November that it had no objections to Kirch holding more than 25 per cent of Springer. Cartel office approval is needed before a shareholder buys more than 24.9 per cent of a West German company.

Mr Kirch announced in July that he wanted to raise his stake in Springer to more than 25 per cent. At the time he said he owned 10 per cent of the diversified media group and had access to another 16 per cent of Springer's shares.

Corimon leaps to $9.1m

By Joseph Mann in Caracas

CORIMON, one of Venezuela's largest industrial gronps, reported net profits of US$9.1m on sales of $130m for fiscal 1988, representing large increases in comparison with the previous fiscal year.

Corimon is a diversified industrial group whose activities include construction materials, paints, chemical prodncts, processed foods, agriculture, packaging and printing. It is carrying out a major investment programme in Venezuela, principally in the construction of new chemical plants.

● Nestlé's Venezuelan subsidiary reported 1988 sales of US$26m (more than 1bn Venezuelan bolivars), and plans to invest $2.6m in its Venezuelan operations next year.

The company, one of the country's largest processed food producers, exported 550 tonnes of food products worth $600,000 to markets in the Caribbean area this year,

FT/AIBD INTERNATIONAL BOND SERVICE

[illegible]

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
AMERICAN BANKERS 5¼ 02	70	87	0	39.34
ARGYLL GROUP 4½ 02	60	92¾	+½	56.35
BOND FINANCE 6 98 E	125	101	-½	-3.63
CANON 3 00	100	227	-¾	-0.54
EASTMAN KODAK 6¼ 01	300	102½	-¼	13.48
ELDERS IIK 5 97	75	116	+½	-12.88
FUJITSU 3 99	180	247	-1	-0.06
GIBRALTAR SAVINGS 7½ 06	100	33	+8	—
GRACE (W R) 6¼ 02	150	81¼	+¼	31.74
GRAND MET 6¼ 02	100	82¼	+¼	27.11
INTL PAPER 5¼ 02	200	04¼	+1	24.87
LTCB 1¼ 02	200	121½	-4½	2.61
MCA 5½ 02	300	82	+¼	34.78
MITSUBISHI BK 1¼ 02	100	139	-4¼	-1.25
NEWMONT MINING 7 01	100	107¼	+¾	10.54
NIPPON ELECTRIC 2¾ 00	150	300	-3	0.03
NISHI NIPPON 2¾ 03	70	123¾	-5¼	-1.31
ROCKEFELLER CENTER 0 00	952	32¾	-½	-63.35
SANWA BANK 1¼ 02	300	117½	+¼	1.52

BOND WARRANTS	Expiry Date	Bid price	Chg on week	Yield
AEGON 9 92	24/09/92	7	-1	8.72
AVON CAPITAL 9 93	09/04/99	0¼	-¼	8.97
CHRYSLER FIN 10¼ 94	32/03/94	3	-1	9.57
DEN NORSKE CREDIT 6 94	02/03/90	1	0	7.96
DEN NORSKE CREDIT 0¼ 96	28/08/89	0¼	0	0.23
DENMARK 12¼ 92	31/01/90	45	-3	13.52
GEN ELEC CRED 9¼ 92 B	17/12/92	9	0	9.21
GMAC 8¼ 95 D	11/02/91	12	-1	8.48
IRVINE IND 8 9¼ 94	01/04/90	170	0	8.69
NORDIC INV BANK 7¾ 96	30/15/91	2¼	0	7.82
RHONE-POULENC 9¼ 96 D	17/04/92	233	0	8.92
ROYAL BK CANADA	22/01/90	52	-1½	10.42
SCC FINANCE 10¼ 90	11/01/90	3¼	0	9.83

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for Yen bonds, where it is in billions.
FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate for US dollars. C cpn = current coupon
CONVERTIBLE BONDS: US Dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price.
WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on DECEMBER 30

INTERNATIONAL CAPITAL MARKETS AND COMPANIES

US MONEY AND CREDIT

Inverted yield curve conundrum for Wall St

WALL STREET'S army of fixed-income economists have been busy analysing the hot topic for the months to come: the development of an inverted yield curve in the Treasury bond market for the first time since 1982.

Historical precedent shows that, when the curve inverts, an economic downturn follows. This has been the case on seven occasions since the mid-1950s. It is, however, the speed and severity of that downturn which lies at the centre of debate about prospects for the economy this year and next.

Will the US Federal Reserve and Congress, which must this year take action on the budget deficit, at least to meet the requirements of Gramm-Rudman-Hollings, be able to engineer a soft landing for the US economy?

The extraordinary stability of yields on long Treasuries around 9 per cent while short rates have ratcheted sharply upwards towards 9¼ per cent suggests at least that investors believe that successive tightening moves by the Fed will slow the economy and inflation down sometime this year and that interest rates will fall from current levels.

The timing and extent of this deceleration remain at issue. There is a camp which errs towards the recession argument.

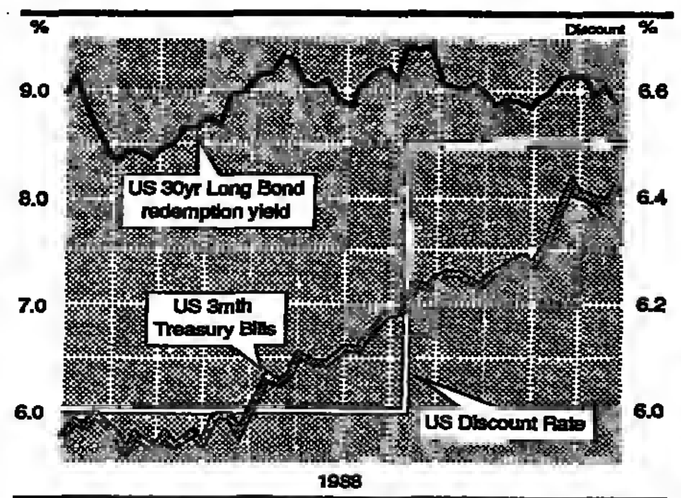
Messrs Paul Campbell and Charles Eaton of Nikko Securities in New York state the inverted yield curve case quite bluntly: "While it is not necessary for the yield curve to invert to precipitate a recession, recessions are always preceded by a rise in the term structure of rates. To repeat, once the yield curve inverts, a recession is an inevitability."

Others find that relationship is not as watertight but still believe there is a danger of recession. Mr Charles Lieberman, managing director of financial markets research at Manufacturers Hanover Securities, argues that it is not the inverted yield curve which causes recessions but restrictive monetary policy.

He believes, in common with many others who have been watching the Fed closely over the past year, that Mr Alan Greenspan's Fed is trying to slow growth down, not kill the cycle. The risk, in Mr Lieberman's opinion is that, if the Fed tightens too slowly, interest rates surge higher and the risk of recession would increase.

The counter argument, of course, is that the Fed initiates a tightening overkill which would similarly end in recession.

'While it is not necessary for the yield curve to invert to precipitate a recession, recessions are always preceded by a rise in the term structure of rates. To repeat, once the yield curve inverts, a recession is an inevitability.' Paul Campbell and Charles Eaton of Nikko Securities.



As we enter 1989, there still appears to be a majority on Wall Street which believes that neither of these alarming scenarios will happen but that the Fed will be able to ratchet growth down gradually this year to around 2 per cent to 2.5 per cent.

Merrill Lynch is perhaps foremost among optimists. Its economics team believes that the Fed's tightening moves in 1988 will contribute to a deceleration of economic growth and diminished inflation pressures. While interest rates may first go temporarily higher, Merrill Lynch forecasts that 30-year bond yields will fall to 7 per cent by the end of this year.

The need to ensure a soft landing is at the heart of the impasse which appears to have developed within the Fed.

The Fed has initiated successive tightening moves since the spring of 1988 (taking Fed funds to a range probably anywhere between 8¾ per cent and 9 per cent) but has been unwilling to make the strong, symbolic gesture of raising the discount rate to match the surge in short term rates.

There are two major problems facing the Fed in making the right judgment about how much tightening the economy needs or can take without toppling into recession.

First and foremost is the question of inflation. Wall Street, and apparently the Fed, are thoroughly divided on this.

The economics team at Drexel Burnham Lambert led by Mr Richard Hoey fairly represents the argument of the hawkish camp. Drexel is forecasting a temporary move in inflation to, or above, 7 per cent by the end of this year or by early 1990. This, they believe, would force a shift in Fed policy from its current "tentative tightening" to a more aggressive "tightening into recession."

"We expect a full-scale recession in the US such as occurred in 1974-1975 or 1981-1982 but we do not believe that the 1990 recession will be longer than a normal post-war recession."

Drexel argues that the starting positions of the US economy are this year very different than in any of the six years of the current economic expansion. Notably, the economy starts this year with vastly increased inflation risks for the following reasons: the capacity to produce goods is tight, labour markets are tight and the inflationary impact of a weakening dollar is likely to be greater than it was in the past.

"The implication of these new initial conditions as the US economy enters 1989 is that moderate growth near full capacity is likely to be more inflationary than rapid growth was in periods of widespread excess capacity. The vulnerability of the economy to inflationary pressures is greater now than at any point since the recovery began, as a result of cumulative capacity tightening."

The other camp believes that the experience of 1988 has proved that inflation is not headed dramatically higher and that a few years of supply side economics under President Reagan will confound the old inflationary arguments of labour market tightness and capacity constraints. This camp argues that the labour market is much more flexible these days and that wage pressures have not begun to build substantially.

The Fed has consistently overestimated inflation over the last six years of the economic expansion and is wary of doing the same again.

Both camps agree that welcome relief on the inflation front could come if the Organisation of Petroleum Exporting Countries cannot hold oil prices. Both camps are, however, concerned that a weak dollar could undo that benefit.

The dollar is the second major issue facing the Fed and the incoming administration. On one hand, ever slower progress on the deficits may mean that the authorities favour a lower dollar. On the other, a weaker dollar threatens to add to inflationary pressures.

As 1988 closed, it was becoming clear that President-elect George Bush's partners in the Group of Seven may not be as co-operative in supporting the dollar as they were in 1988 when sluggish growth at home (notably West Germany) made a weak domestic currency palatable.

Growth outside the US, however, is now generally pretty robust and inflationary pressures have started to build.

Japan, it seems, will continue to be more or less co-operative with the US partly because it has nothing to lose. Its industry is known to be prepared to live with a dollar/yen rate of Y100: if the US administration wants the dollar that weak, then why not help it to accomplish this fact in an orderly fashion and prevent a damaging overshoot?

The wild card over the next year will be the effort to put together a credible budget reduction package. This is of key importance to the dollar which was the main conduit for pessimism on this front directly after Mr Bush's election victory.

The risk is not only that there will be no satisfactory package to tighten the fiscal position, leaving the brunt of economic management firmly on the monetary side. There is also the risk that a solid budget reduction package could squeeze the economy when it is already decelerating very quickly in response to monetary measures.

How do bond investors react to all this? Mr Geoffrey Dennis, international economist with James Capel in New York, believes this will be a very difficult year to judge. James Capel is forecasting 3.2 per cent growth this year coupled with a rise in the underlying inflation rate to around 5½ per cent. This should be bad news for bonds.

On the other hand, there are many factors which could give considerable help to Treasuries. Firstly, Mr Bush may come up with a surprisingly helpful budget accord. Secondly, any further problems in the corporate bond sector – related to leveraged buy-outs – could trigger a further flight into Treasuries. Thirdly, when growth begins to slow, it could do so very sharply and the Fed will start easing.

The nightmare for the Fed, according to Mr Dennis, is that it may find that it has finally hit economic growth for six just as Congress comes up with something on the fiscal side.

For, when all is said and done, no amount of tinkering with social security and military spending and user fees will help if this economy tips into recession. Forget Gramm-Rudman-Hollings: the deficit will be at $200bn before you know it.

Janet Bush

THE FOLLOWING are economic releases due this week together with forecasts derived from a survey of economists by Money Market Services of Redwood City, California:

Construction spending for November (due today). The median forecast is for a rise of 0.4 per cent with the range of forecasts between a decline of 0.4 per cent to a gain of 1 per cent.

Also due out today is the December report on the economy by National Purchasing Managers.

Manufacturing inventories for November (tomorrow). MMS median forecast is for a rise of 0.4 per cent. Forecasts range between down 0.4 per cent to up 2 per cent.

Employment figures for December (Friday). The median forecast is for a rise of 250,000 in the non-farm payroll with the estimates ranging between a gain of 150,000 and 300,000.

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	9.60	8.87	8.60	8.87	6.27
Three-month Treasury bills	8.12	8.45	8.30	8.45	6.21
Six-month Treasury bills	8.25	8.67	8.71	8.67	5.73
Three-month prime CDs	9.20	9.35	9.35	9.35	6.77
30-day Commercial Paper	9.04	9.45	9.25	9.45	6.57
90-day Commercial Paper	8.98	9.18	9.15	9.18	6.65

Indian group plans $1bn oil refinery

By R.C Murthy in Bombay

RELIANCE INDUSTRIES, the big Indian industrial group, has proposed setting up a modern Rs17bn ($1.13bn) six million tonne-capacity oil refinery in Gujarat on the west coast of India.

Mr Dhirubhai Ambani, chairman, is optimistic of receiving government permission for the project, which would mean the return of the private sector to oil refining after more than two decades.

Shell, Caltex and Esso sold their assets to the Government in the late 1960s as they saw little future for them in the country. The Indian Government supplies crude petroleum, both imported and locally produced, to oil refineries, which have to process and distribute the finished products through retail outlets at prices stipulated by the government.

The first major step towards opening up oil refining to the private sector was taken two years ago when tha Birla group, led by Mr Aditya Birla, and the Tata group were allowed to become partners with government-owned corporations to set up two new oil refineries in a "joint sector."

One will be at Karnal in the northern state of Haryana and the other at Mangalore on the west coast in south India.

The Karnal refinery is to be built with Russian equipment backed by soft loans but the Soviets have agreed to a Tata proposal to use US technology for the hydrocracker, for which payment has to be in convertible currencies. Lumus, the US consultancy, is preparing a detailed project report for the Mangalore refinery.

Tata and Birla will have to finance construction of the two refineries privately and are barred from drawing on government-owned financial institutions for funds.

The private sector rush into oil refining is triggered by its belief that it can produce more efficiently than the public sector. There are also opportunities for direct marketing of certain oil products such as lubricants without the intervention of public sector agencies, a concession made when the joint sector concept was introduced recently.

The proposed Gujarat refinery is not included in India's eighth five year plan, to start in April 1990, and the private sector entry is intended to achieve an element of diversity in asset creation by tapping the private investor directly.

The projected Rs17bn investment is not part of the Rs20bn which Reliance plans to invest in petrochemicals over the next four years, said Mr Ambani.

Separately, the group has tightened its grip on Larsen and Toubro, a high-tech engineering company, by appointing another Reliance nominee to the board and elevating Mr Mukesh Ambani to vice-chairman.

Receivers in as Minox labour force is cut

MINOX, the West German maker of small cameras, has gone into receivership in an attempt to put the ailing company back on its feet after cutting its labour force by 200 employees, the court-appointed official administering the move said yesterday.

Mr Wilhelm Scheaf, who is overseeing possible rehabilitation of the company, also said the remaining 335 employees had received new month-long contracts which he hopes to be able to extend.

Minox, located in Giessen near Frankfurt, has filed for bankruptcy and claims DM45m (£14m) in debt. AP-DJ reports.

Company employees met yesterday to hear Mr Schaaf's plan for rehabilitation of the company, which despite a 1988 turnover of DM70m still suffered a loss of between DM6m and DM7m for the year.

Mr Schaaf said he hoped to make the company "economically manageable" within the next year, "then I hope I can find someone else to take it over."

Minox is well known for its small and miniature film cameras.

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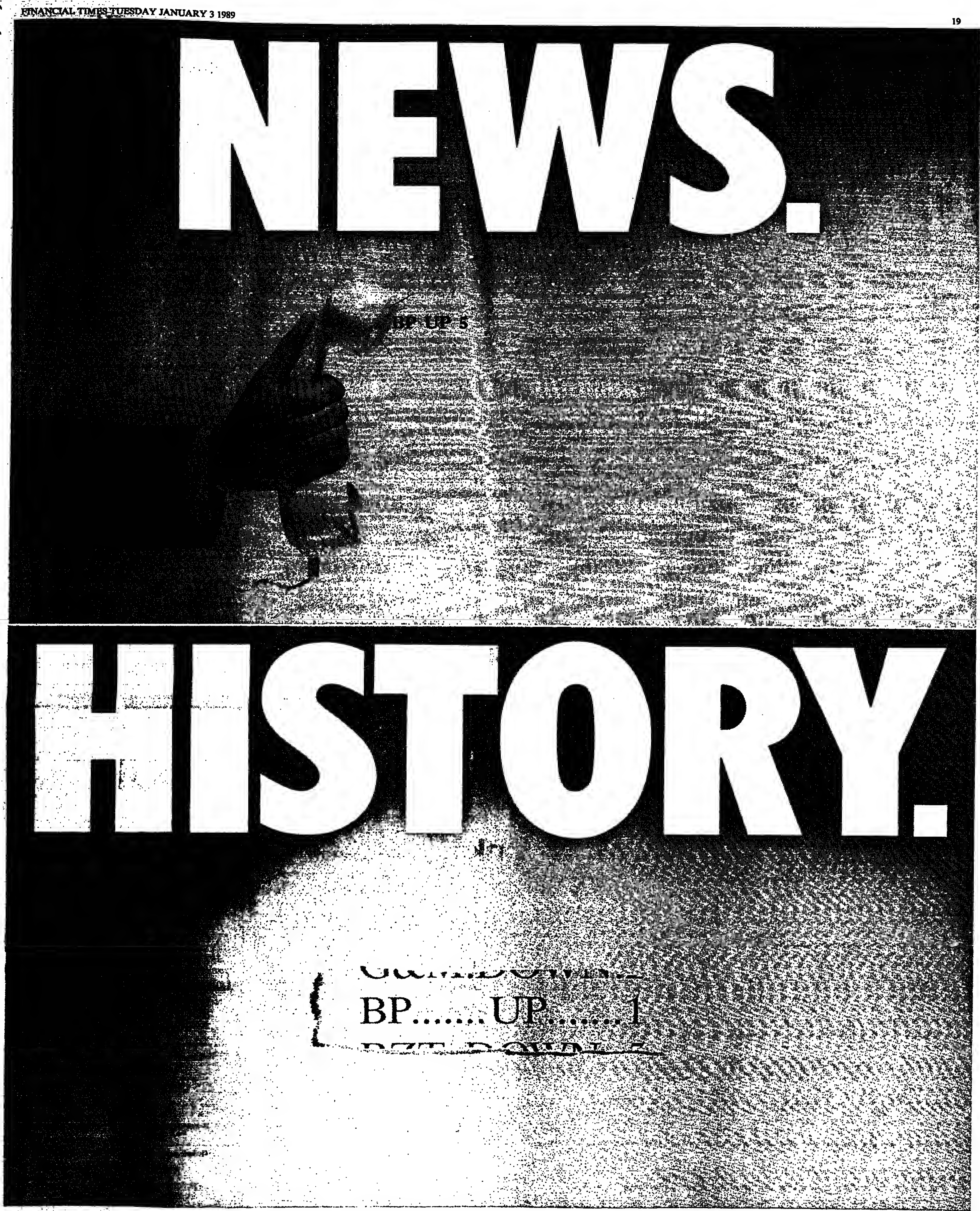


UK COMPANY NEWS

Cash becomes pronounced feature on the UK takeover front

Nikki Tait reviews the bids and deals scene in 1988 and ponders a question for the financial community

MORE CASH, less work. If that, in a nutshell, was the worried thought about bids and deals in corporate finance departments a year ago, it represented a rare, unjustified moment of self-doubt.

Cash bids certainly took up the running from paper-financed deals in the UK over the past 12 months, but the pace itself shows no sign of slackening.

According to Department of Trade and Industry figures for the first nine months of 1988, the total value of mergers and acquisitions within the UK was a heady £17bn.

That compares with the £14.9bn and £15.4bn recorded for the whole of 1986 and 1987 years respectively.

And while "mega-bids" – offers topping the £1bn-mark – were a significant feature of 1988, it was equally true that the sheer volume of acquisition activity remained surprisingly buoyant.

Again, on DTI statistics, the number of acquired companies in the first nine months of the year totalled 920, against 863 in a comparable period of 1987.

Those figures, moreover, make no attempt to measure overseas acquisition activity by British companies. Here, the picture became more patchy, but remained equally encouraging overall.

It is true, for example, that by the end of October the tally of UK purchases in the US – as estimated by brokers Hoare Govett – stood at only $14bn, well below the $24bn spent in the first nine months of 1987. But by the year-end, this deficit should be more than remedied as the Grand Metropolitan/Pillsbury, BAT Industries/Farmers, and Maxwell/Macmillan deals – plus a host of smaller transactions – feed through to the figures.

By December 31, suggests Hoare Govett, British companies may have taken a $30bn bite out of corporate America. That compares with the $26bn swallowed in 1987.

Moreover, there also is the impact of European deals – the theme of the moment, but for which reliable statistics have yet to become available.

Adding all external elements together, accountants Peak Marwick McLintock suggest that "outward-bound" acquisition investment by UK companies – both in the private and public sectors – may have approached £20bn in 1988.

All of which should be cause for celebration, given the doleful noises which were sounded immediately after Black Monday.

But to suggest that this resilient workload has also left Britain's corporate finance community headache-free would be gross oversimplification. For all the 1992 talk, it is the trend to cash which has been the most pronounced feature of the UK's bids and deals scene – and that, in turn, has provoked its own problems.

The extent of the shift is plain to see. Whereas cash accounted for less than one-third of intra-UK bid expenditure in 1987, it rose to over 70 per cent in the first quarter of 1988, dipped slighty in the second three months, and then topped 80 per cent in the third quarter.

The reason is simple. The jittery state of the London stock market makes large-scale underwriting in bid situations virtually impossible. Admittedly, during the spring, as nerves recovered from the market crash, some tentative moves in this direction developed – Ward White, for example, underwrote a convertible preference share issue to provide a full cash alternative in its £130m bid for A. G. Stanley.

But the embryonic recovery was quickly halted by the Thomas Robinson debacle. The engineering group made an unfortunate intervention into a recommended merger deal between Colorol and John Crowther – attempting to offer a full underwritten cash alternative to the paper-only *transaction already on the table.*

Sub-underwriting, however, proved a fiasco. Worse, this failure created the bizarre possibility that, had the bid succeeded, Robinson's merchant bank, Robert Fleming, might have been left with over 30 per cent of Robinson's shares.

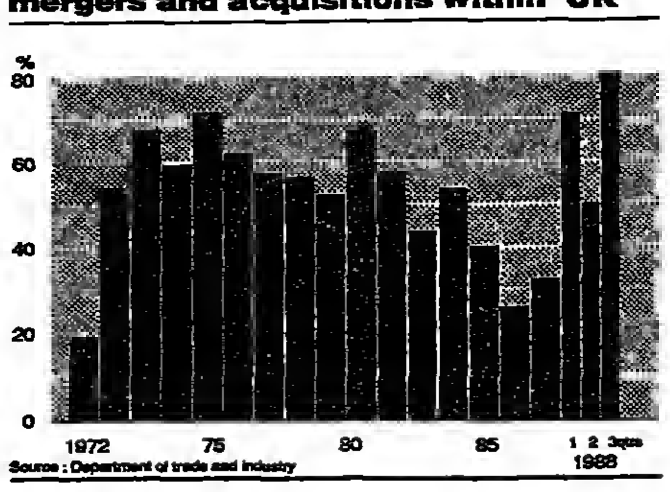
Mercifully, Colorol won the day. But Robinson's experience served as a warning, and wiser bidders have not been quick to test the sub-underwriting waters again.

Whether the financial community is entirely easy about the trend to cash is another matter. For a start, it raises the thorny issue of leveraged bids – those financed by large chunks of bank debt.

In the past, leveraged deals (outside the management buy-out arena) have never featured to any great extent in the UK, but over the past 12 months there has been a marked increase – thanks partly to banks which are more than willing to lend at tasty rates, and partly to corporate ambitions, which can no longer be satisfied via paper *financing.*

In the latter half of 1988, bid situations as diverse as Minorco/Consolidated Gold Fields, Goodman Fielder/Ranks Hovis MacDougall, Elders IXL/Scottish and Newcastle Breweries, Kelt Energy/Carless, Strong & Fisher/Pittard Garnar and Glowtrack/Virgin were all financed to a greater or lesser extent by specially-organised loan facilities.

Cash proportion of expenditure on mergers and acquisitions within UK



Source: Department of trade and industry

The problem with such deals is that, provided sufficient cash is on the table, existing shareholders have little incentive to look at the shape of the ongoing corporate vehicle.

To such critics, banks reply that they are hardly likely to lend if cash-flow projections suggest problems ahead. That, counter the detractors, is *slightly disingenuous. For a start,* lenders tend to be well-covered and well-rewarded for the risk.

More fundamentally, it is sometimes difficult to see how a company's future is positively enhanced by the addition of a large layer of debt, even if its immediate survival is not threatened.

This is a nettle which no-one has been keen to grasp. The official line, restated by Lord Young, Trade and Industry Secretary, in October, is that leverage alone should not prompt intervention.

Nevertheless, such pronouncements have not always led to a minimalist approach. Goodman's £1.7bn bid for RHM, for example, was referred to the Monopolies and Mergers Commission on the grounds that the leverage involved in the offer could affect RHM's competitive position in the delicately-poised UK bread market.

Goodman backed off, and the argument was never tested. However, the waters appear to have been somewhat muddied and, should another major UK company fall victim to a highly leveraged approach, the broader issue will doubtless surface again.

The trend to cash bids has also created accounting pressures. The "goodwill" problem – how to account for the difference between the price paid by a bidder and the actual book value of the assets purchased – could be dealt with fairly neatly while paper-financing was the norm.

Cash is far less convenient, and the problems of writing off goodwill in one year – thereby seriously eroding the level of shareholders' funds – have produced a range of alternative solutions.

Some cash bidders, like Sears, managed to concede to acquisition activity with regular asset revaluations; British & *Commonwealth Holdings* decided to write off goodwill over 40 years; GrandMet included a partial "brand" valuation in respect of certain *recently-purchased assets;* RHM included a comprehensive brand valuation in respect of its full product range.

There have been other refinements and no doubt there will be more.

Between cash and paper, of course, come a number of intermediary alternatives. Throughout the earlier part of 1988, convertible shares – offering the short-term protection of a higher yield but ultimately designed to convert to straight equity – featured prominently. However, higher interest rates and, perhaps, a somewhat sated market, tended to curb such issues in the closing months of the year.

The fundamental shift in market conditions, of course, has created opportunities as well as problems – most notably in the trend to management buy-outs of entire public companies.

The spotlight fell on Virgin, Mr Richard Branson's entertainments group, which shifted back to the private sector after only two years in the public arena. But there were also a number of smaller "privatisations" – the likes of Dwek Group, Glass Glover and, currently seeking shareholders' support, Ryan International.

How far institutions will wish this trend to go is a moot point. Companies considering such action regularly argue that investors' requirements for steady profit and earnings progress are at odds with corporate strategy. Since it is no longer possible to tap the market for new funds, why should they hang around for the angst?

Fine, say some of the larger institutional shareholders, provided management – with inevitable inside knowledge – does not attempt to buy the group on the cheap. Glass Glover, for example, ran into an obdurate Scottish institution although in the end it emerged triumphant.

If the state of the London stock market was the dominant *influence on the UK* merger and acquisition scene during 1988, the other major talking point was 1992. Thanks to the general publicity, there are now few industrialists who fail to beat the European drum when making acquisitions of any kind.

That said, there is clearly considerable substance behind the show. It is true that the UK corporate sector *still* spends more on US acquisitions than on European ones, but 1988 should also go down as a year in which intra-European bid activity notched up several gears.

That has not always been to the comfort of UK companies, whose shares trade in a relatively open financial market. In the food area, Rowntree fell to Nestlé; in property, Peachey and Hammerson were victims of Dutch predators; even the obscure independent water company sector saw a minor French invasion.

Arguably, the most innovative move was the collaborative assault by GEC, the British electronics group, and Siemens of West Germany on Plessey, the UK defence electroncis and telecommunications company.

If successful, the two predators will end up with varying stakes in Plessey's subsidiary interests – and, they argue, be in a stronger position to counter US/Japanese competition within their industry.

More cynical observers have questioned whether the bid's construction is a clever wheeze to bypass potential monopoly problems; GEC alone, *after all,* fell at this hurdle in its previous assault on Plessey.

Maybe – but whatever the reservations on that score, no-one can deny that this is "Europeanism" writ large. GEC has even rammed the message home by linking its power business interests with those of Compagnie Généralé d'Electricité.

Supervision of such "pan-European" moves is another problem *altogether.* The UK Takeover Panel, Britain's watchdog on bids and deals, has clung to its non-statutory status despite the Guinness affair and – helped by added *disclosure* requirements – appears increasingly willing to show its teeth. The initial blueprint for pan-European takeover regulation, moreover, seems broadly compatible with the UK's domestic rulebook.

Nevertheless, defending companies – notably Irish Distillers and Plessey – have been quick to draw the European Commission (directly or indirectly) into their respective arguments.

As Plessey found, the card does not always stick. But if the GEC-Siemens initiative is indicative of what lies ahead, such rumbling frictions between national authorities and Brussels can only increase.

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Kleinwort Benson Gilt Fund, R.E.A. Holdings.

FUTURE DATES

Interims-

Clark(M) and Sons	Jan. 18
Hampson Inds.	Jan. 17
Hilclare	Jan. 10
ML Hldgs.	Jan. 9
Smith(WH) Gp.	Feb. 1
TR City of London Tst.	Jan. 4
Turnbull Scott Hldgs.	Jan. 12

Finals-

Countryside Props.	Jan. 10
Jersey Electricity	Jan. 6
Scandinavian Bank	Feb. 9

T-Line urges bid rejection

By Ray Bashford

THOMSON T-Line, the industrial holding company which has Vernons football pools as its principal asset, has urged shareholders to reject the £165m takeover offer from Ladbroke Group.

In the takeover defence document, Thomson T-Line said the bid from the diversified international leisure group was "opportunistic" and undervalues the company.

Thomson T-Line shares have traded above the 80p a share cash element of the offer since it was announced last month amid speculation of a rival bid.

While announcing the offer Ladbroke said that its primary aim to to gain control of Vernons and dispose of most of the other assets.

The Thomson T-Line board argues in the document that Ladbroke is attempting to win Vernons "at a bargain basement price."

Vernons was acquired last year for £90m. Mr Cyril Stein, Ladbrokes chairman and managing director believes that after the disposal of other assets the pools group could be purchased for less than Thomson T-line paid.

COMPANY NEWS IN BRIEF

FORD SELLAR Morris – Mr M D Morris and Mr I G Sellar are to restructure their private interests with Mr Morris agreeing to acquire from Mr Sellar assets in the US. As part consideration for those assets Mr Morris has agreed to transfer to Mr Sellar 500,000 of the company's ordinary shares. Following the restructuring Mr Sellar, chief executive, will have 8.55m ordinary (20.04 per cent) and Mr Morris, a director, 7.03m (16.48 per cent).

HARTONS GROUP's French *subsidiary, Auxiglass, has sold* its wholesale division specialising in sales to the glazing industry, to Dow Corning Construction SA. Consideration was FFr 18m cash and a trade-mark licensing fee of some FFr 9m.

HYMAN has acquired Unger *Trading Co, frozen meat products* manufacturer, for £2.16m, satisfied by £38,000 cash and the issue of 4.3m ordinary stock units. Consideration for the remaining 20 per cent will be the issue of 10 per cent of a new subsidiary holding company, Hyman Foods, to Mr Lee Unger, managing director of Unger.

MAGNOLIA GROUP (Mouldings) has granted a 120-year lease of its *factory at Rochford* (following its closure) and is selling certain equipment and stock to Busyrak for a total consideration of £1.68m cash.

M&G EUROPEAN and General Trust Fund: Interim distribution on income units for 12 months to June 18 1989 will be 1p net (0.1p).

M&G GENERAL Trust Fund: Final distribution on income units for 12 months to December 27 1988 will be 13.869p net (10.739p).

M&G RECOVERY Fund: Interim distribution on income *units for 12 months to June 18* 1989 will be 7.1p net (5p).

M&G SECOND Dual Trust: for six months ended November 30 1988 net revenue £964,000 (£796,000) equal to 9.64p (7.95p) per income share. Interim dividend 9.64p (7.95p), payable January 17, and final of at least 8.8p forecast (7.63p). Asset value of capital shares at period end was 408.03p (336.2p).

MERGER CLEARANCES: the acquisition by Arvin Industries *of the silencer business of* TI Group, and the management buy-out by the industrial products division of Evered Holdings, are not being referred to the *Monopolies and Mergers* Commission.

OAKWOOD GROUP has agreed the sale of its subsidiary, *Frank Love, to Broadwood* Properties for a total consideration of £796,000. The purchase will be satisfied by six equal monthly instalments in cash *totalling £682,000* and the assumption by Broadwood of certain liabilities of Frank Love. Oakwood will retain a freehold property in addition to trade debtors amounting to £839,000.

OPTIM GROUP has acquired LPR Office Supplies (Herts) and JPR (Office Equipment) from its management. Total consideration of £370,000 was satisfied by the issue of 349,345 new shares at an average of 57.25p, plus £170,000 in cash.

QUESTEL: the offer by IWP International has been declared unconditional with acceptances of 3.99m shares *(89.2 per cent). It remains open* and the partial cash alternative will be open available until January 11.

SYNAPSE COMPUTER Services has paid £340,000 cash for Westwood Information Technology, a consultancy service.

TATE & LYLE: Mr Neil Shaw, chairman and chief executive, was paid £348,000 in the 53 weeks to October 1, compared with £232,000 in 1986-87. His remuneration is denominated in Canadian dollars.

TR ENERGY has bought certain oil and gas related securities in the US for £565,000, met by the issue of 3.14m shares.

VAN DIEMEN'S Land has been informed that 72.99 per cent of its capital (1.82m shares) has changed hands. Merton Associated Corporation has sold the holding to Mr David Kirch at £2.30 per share.

WILLAIRE GROUP - Shareholders have taken up the open offer of 22.89m new ordinary shares in respect of 4.74m shares (19.86 per cent). The balance has been placed. The acquisitions of Medical Air Technology and Climperhurst have been completed.

ZURICH GROUP is acquiring John Garrett and Son Holdings for £9.3m in 7.87m new ordinary shares, £3.16m loan notes, and £3.85m cash. Garrett, which is involved in commercial and residential property development and building contracting, made taxable profits of £646,000 in 1987.

FINANCIAL TIMES STOCK INDICES

	Dec. 30	Dec. 29	Dec. 28	Dec. 23	Dec. 22	Dec. 21	1988 High	1988 Low	Since Compilation High	Since Compilation Low
Government Secs.	87.03	87.20	87.30	87.46	87.38	87.28	91.43	86.18	127.4	49.18
Fixed Interest	96.01	96.81	96.13	95.70	95.75	96.10	98.67	94.14	105.4	50.53
Ordinary	1455.3	1463.1	1447.1	1436.2	1432.4	1435.0	1514.7	1349.0	1926.2	49.4
Gold mines	161.9	162.6	164.6	163.3	164.1	164.7	312.5	161.9	734.7	43.5
FT-Act All Share	926.59	930.43	922.51	915.52	913.42	914.61	978.58	876.19	1238.57	61.92
FT-SE 100	1793.1	1803.4	1787.7	1774.0	1768.7	1772.6	1879.3	1694.5	2443.4	986.9

UK COMPANY NEWS

Probe into Minorco takeover moves step nearer completion

By Ray Bashford

THE MONOPOLIES and Mergers Commission investigation into Minorco's £2.9bn proposal to take over Consolidated Gold Fields moves a step closer to conclusion this week when both sides will appear to present further evidence.

The hearings are expected to be the last before the MMC begins the final consideration of evidence to be used in the preparation of a report which is due to be completed by January 28.

These will be the third appearances by each side before the MMC since Lord Young, the trade and industry secretary, announced the investigation last October, about a month after Minorco, the Luxembourg-based investment arm of Mr Harry Oppenheimer's Anglo American, made the record UK bid.

When the investigation was announced, the Department of Trade and Industry said that it was concerned about "possible effects on high value minerals and metals, especially titanium and zircon."

However, the agenda for this week's meetings makes it possible for the MMC to examine virtually all aspects of both companies' mining and commercial operations.

The companies have been given copies of an agenda for the meetings which are expected to take place on Thursday and Friday.

The agenda covers five main areas of interest and gives an insight into how broad the investigation has become.

The headings are: competition in markets (gold, titanium and aggregates); Minorco's contact with Anglo American; South African influence (commercial and political factors); financial issues; possible remedies.

The inclusion of the probe into the South African influence will open up an investigation into the world diamond and platinum markets which are heavily influenced by Anglo American and associated companies.

It will also consider the possible political impact on operations in the UK, US and Australia if control passes to Minorco while remaining under South African influence.

The release of information about the meetings during the past week is a further example of how hard both sides are fighting their corners despite the fact that Minorco's offer has lapsed.

Analysts believe Gold Fields welcomes the confirmation that the investigation has broadened because it may force Mr Oppenheimer to reconsider pursuing the bid.

The DTI report into trading in Gold Fields' shares in the run up to the offer is not expected to be completed before next June.

Wardle hits out at Armstrong forecast

By Ray Bashford

WARDLE STOREYS, plastic sheeting and survival equipment group, yesterday fired a quick reply to the defence document issued by its takeover target Armstrong Equipment, describing the profit forecast as "disappointing."

The document to shareholders from the motor components and industrial fastener group forecasts a 49 per cent increase in pre-tax profits from £5.7m to £8.5m for the year to July 1.

Profits during the second half of the year are forecast to be about twice those in the first half of the year.

"These forecasts confirm the substantial achievements of your new management team and the progress made in restructuring and reorganising your company," the Armstrong board said.

Wardle Storeys launched a cash and share offer mid-way through last November which at the time valued Armstrong at £85.4m. Last month the offer was extended after acceptances for only 2.3 per cent of the capital had been received.

Mr Brian Taylor, the Wardle Storeys chief executive said that the profit forecast supports the view that the offer is "fully priced and represents a significant premium to the price at which Armstrong shares would trade in the absence of an offer."

Referring to the forecast of an increase in the annual dividend from 3.5p to 4p a share, Wardle Storeys said that it can "hardly be taken as a mark of true confidence" when compared with the profit outlook.

Last September Armstrong disclosed major problems at its York plant which contributes about 30 per cent of group turnover. Directors forecast that profits from the plant will return to an acceptable level this year following an overhaul of operations.

Tamaris purchase

Tamaris is to acquire Dormy House, a nursing home in Sunningdale, Berkshire, from Care Homes for £2.7m cash.

FT GUIDE TO WORLD CURRENCIES

The table below gives the latest available rates of exchange (rounded) against four key currencies on Friday 30 December, 1988. In some cases the rate is nominal. Market rates are the average of buying and selling rates except where they are shown to be otherwise. In some cases market rates have been calculated from those of foreign currencies to which they are tied.

COUNTRY		£ STG	US $	D-MARK	YEN (X 100)
Afghanistan	(Afghani)	99.25	54.8645	30.9431	43.9159
Albania	(Lek)	10.1466	5.6089	3.1633	4.4896
Algeria	(Dinar)	11.4713	6.3412	3.5763	5.0757
Andorra	(Fr Fr)	10.9575	6.0572	3.4162	4.8484
	(Sp Peseta)	204.75	113.1840	63.8347	90.5973
Angola	(Kwanza)	54.5995	30.1821	17.0224	24.1590
Antigua	(E Carr $)	4.88	2.6976	1.5214	2.1592
Argentina	(Austral)	29.3800	16.2410	9.1597	13
Aruba	(Florin)	3.2336	1.7875	1.0081	1.4307
Australia	(Aus $)	2.1155	1.1694	0.6595	0.9360
Austria	(Schilling)	22.555	12.4682	7.0319	9.9800
Azores	(Port Escudo)	264.50	146.2133	82.4629	117.0353
Bahamas	(Bahama $)	1.8090	1	0.5639	0.8004
Bahrain	(Dinar)	0.6775	0.3745	0.2112	0.2997
Balearic Is	(Sp Peseta)	204.75	113.1840	63.8347	90.5973
Bangladesh	(Taka)	57.00	31.5091	17.7708	25.2212
Barbados	(Barb $)	3.6334	2.0085	1.1327	1.6076
Belgium	(Belg Fr)	67.40c	37.2581	21.0132	29.8230
		67.55g	37.3410	21.0600	29.8893
Belize	(B $)	3.6130	1.9972	1.1264	1.5986
Benin	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Bermuda	(Bermudian $)	1.8090	1	0.5639	0.8004
Bhutan	(Ngultrum)	27.00	14.9253	8.4177	11.9469
Bolivia	(Boliviano)	4.6427	2.5664	1.4474	2.0542
Botswana	(Pula)	3.475	1.9209	1.0833	1.5376
Brazil	(Cruzado)	1364.45	754.2564	425.3936	603.7389
British Virgin Is	(US $)	1.8090	1	0.5639	0.8004
Brunei	(Brunei $)	3.5153	1.9432	1.0959	1.5554
Bulgaria	(Lev)	1.4956	0.8267	0.4662	0.6617
Burkina Faso	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Burma	(Kyat)	11.3269	6.2614	3.5313	5.0119
Burundi	(Burundi Fr)	269.50	148.9773	84.0218	119.2477
Cameroon	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Canada	(Canadian $)	2.1540	1.1907	0.6715	0.9530
Canary Is	(Sp Peseta)	204.75	113.1840	63.8347	90.5973
Cp. Verde Is	(CV Escudo)	129.6073	71.6458	40.4075	57.3483
Cayman Is	(CI $)	1.4994	0.8288	0.4674	0.6634
Cent.Afr. Rep	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Chad	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Chile	(Chilean Peso)	453.30	250.5804	141.3250	200.5752
China	(Renminbi Yuan)	6.6886	3.6974	2.0853	2.9595
Colombia	(Col Peso)	610.18	337.3023	190.2353	269.9911
Comoro Is	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Congo (Brazz)	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Costa Rica	(Colon)	143.6168	79.3901	44.7753	63.5472
Cuba	(Cuban Peso)	1.3758	0.7605	0.4289	0.6087
Cyprus	(Cyprus £)	0.84	0.4643	0.2618	0.3716
Czechoslovakia	(Koruna)	9.50c	5.2515	2.9618	4.2035
		16.54t	9.1431	5.1566	7.3185
		15.93t	8.8059	4.9664	7.0486
Denmark	(Danish Kroner)	12.4100	6.8601	3.8690	5.4911
Djibouti Rep	(Djib Fr)	313.00	173.0237	97.5837	138.4955
Dominica	(E Carrib $)	4.88	2.6976	1.5214	2.1592
Dominican Rep	(D Peso)	11.4713	6.3412	3.5763	5.0757
Ecuador	(Sucre)	744.06o	411.3101	231.9750	329.2300
		915.20a	505.9148	285.3312	404.9557
Egypt	(Egyptian £)	4.2611	2.3555	1.3284	1.8854
El Salvador	(Colon)	9.0435	4.9991	2.8194	4.0015
Equat'l Guinea	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Ethiopia	(Ethiopian Birr)	3.7223	2.0576	1.1604	1.6470
Falkland Is	(Falk £)	1.00	0.5527	0.3117	0.4424
Faroe Is	(Danish Kroner)	12.4100	6.8601	3.8690	5.4911
Fiji Is	(Fiji $)	2.5154	1.3904	0.7842	1.1130
Finland	(Markka)	7.5168	4.1552	2.3435	3.3260
France	(Fr)	10.9575	6.0572	3.4162	4.8484
Fr. Cty/Africa	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Fr. Guiana	(Local Fr)	10.9575	6.0572	3.4162	4.8484
Fr. Pacific Is	(CFP Fr)	193.00	106.6887	60.1714	85.3982
Gabon	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Gambia	(Dalasi)	12.2226	6.7565	3.8106	5.4082
Germany East	(Ostmark)	3.2075	1.7730	1	1.4192
Germany West	(DMark)	3.2075	1.7730	1	1.4192
Ghana	(Cedi)	419.68	231.9955	130.8433	185.6991
Gibraltar	(Gib £)	1.00	0.5527	0.3117	0.4424
Greece	(Drachma)	266.40	147.2636	83.0553	117.8761
Greenland	(Danish Krone)	12.4100	6.8601	3.8690	5.4911
Grenada	(E Carr $)	4.88	2.6976	1.5214	2.1592
Guadaloupe	(Local Fr)	10.9575	6.0572	3.4162	4.8484
Guam	(US $)	1.8090	1	0.5639	0.8004
Guatemala	(Quetzal)	4.9196	2.7195	1.5337	2.1768
Guinea	(Fr)	541.95	299.5854	168.9633	239.8008
Guinea-Bissau	(Peso)	1174.225	649.1017	366.0872	519.5685
Guyana	(Guyanese $)	16.2540	8.9850	5.0674	7.1920
Haiti	(Gourde)	9.0325	4.9930	2.8160	3.9966
Honduras	(Lempira)	3.6174	1.9996	1.1277	1.6006
Hong Kong	(HK $)	14.1160	7.8032	4.4009	6.2460
Hungary	(Forint)	94.1714	52.0571	29.3597	41.6687
Iceland	(Icelandic Krona)	83.19	45.9867	25.9360	36.8097
India	(Indian Rupee)	27.00	14.9253	8.4177	11.9469
Indonesia	(Rupiah)	3106.695	1717.3548	968.5720	1374.6438
Iran	(Rial)	123.70	68.3803	38.5658	54.7345
Iraq	(Iraqi Dinar)	0.5599	0.3095	0.1745	0.2477
Irish Rep	(Punt)	1.2015	0.6641	0.3745	0.5316
Israel	(Shekel)	3.027	1.6733	0.9437	1.3393
Italy	(Lira)	2362.00	1305.6937	736.3990	1045.1327
Ivory Coast	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Jamaica	(Jamaican $)	9.7524	5.3910	3.0404	4.3152
Japan	(Yen)	226.00	124.9309	70.4598	100
Jordan	(Jordanian Dinar)	0.8555	0.4729	0.2667	0.3785
Kampuchea	(Riel)	180.90	100	56.3990	80.0442
Kenya	(Kenya Shilling)	33.13	18.3139	10.3289	14.6592
Kiribati	(Australian $)	2.1155	1.1694	0.6595	0.9360
Korea North	(Won)	1.7523	0.9686	0.5463	0.7753
Korea South	(Won)	1225.45	677.4184	382.0576	542.2345
Kuwait	(Kuwaiti Dinar)	0.50935	0.2815	0.1587	0.2253
Laos	(New Kip)	776.795	429.4057	242.1808	343.7146
Lebanon	(Lebanese £)	954.80	527.8054	297.6773	422.4778
Lesotho	(Maluti)	4.3043	2.3793	1.3419	1.9045
Liberia	(Liberian $)	1.8090	1	0.5639	0.8004
Libya	(Libyan Dinar)	0.5168	0.2856	0.1611	0.2286
Liechtenstein	(Swiss Fr)	2.7175	1.5022	0.8472	1.2024
Luxembourg	(Lux Fr)	67.40	37.2581	21.0132	29.8230
Macao	(Pataca)	14.5299	8.0320	4.5299	6.4291
Madeira	(Port Escudo)	264.50	146.2133	82.4629	117.0353
Malagasy Rep	(MG Fr)	2513.05	1389.1929	783.4918	1111.9690
Malawi	(Kwacha)	4.5950	2.5400	1.4325	2.0331
Malaysia	(Ringgit)	4.9005	2.7089	1.5278	2.1683
Maldive Is	(Rufiya)	15.8972	8.7878	4.9562	7.0341
Mali Rep	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Malta	(Maltese £)	0.5970	0.3300	0.1861	0.2641
Martinique	(Local Fr)	10.9575	6.0572	3.4162	4.8484
Mauritania	(Ouguiya)	142.6412	78.8508	44.4711	63.1155
Mauritius	(Maur Rupee)	24.74	13.6760	7.7131	10.9469
Mexico	(Mexican Peso)	4167.23a	2303.6097	1299.2143	1843.9070
		4077.27d	2253.8805	1271.1675	1804.1017
Miquelon	(Local Fr)	10.9575	6.0572	3.4162	4.8484
Monaco	(French Fr)	10.9575	6.0572	3.4162	4.8484
Mongolia	(Tugrik)	6.0617	3.3508	1.8898	2.6821
Montserrat	(E Carr $)	4.88	2.6976	1.5214	2.1592
Morocco	(Dirham)	14.63	8.0873	4.5611	6.4734
Mozambique	(Metical)	1131.23	625.3344	352.6827	500.5442
Namibia	(S A Rand)	4.3043	2.3793	1.3419	1.9045
Nauru Is	(Australian $)	2.1155	1.1694	0.6595	0.9360
Nepal	(Nepalese Rupee)	43.3560	23.9668	13.5170	19.1840
Netherlands	(Guilder)	3.6225	2.0024	1.1293	1.6028
N'nd Antilles	(A/Guilder)	3.2336	1.7875	1.0081	1.4307
New Zealand	(NZ $)	2.8665	1.5845	0.8936	1.2683
Nicaragua	(Cordoba)	578.78	319.9447	180.4458	256.0973
Niger Rep	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Nigeria	(Naira)	9.5745	5.2927	2.9850	4.2365
Norway	(Nor. Krone)	11.8775	6.5657	3.7030	5.2555
Oman	(Rial Omani)	0.6900	0.3814	0.2151	0.3053
Pakistan	(Pak. Rupee)	34.00	18.7949	10.6001	15.0442
Panama	(Balboa)	1.8090	1	0.5639	0.8004
Papua New Guinea	(Kina)	1.4818	0.8191	0.4619	0.6556
Paraguay	(Guarani)	578.78o	319.9447	180.4458	256.0973
		1848.49a	1021.8297	576.3084	817.9159
Peru	(Inti)	59.69o	32.9961	18.6095	26.4115
		1998.59a	1104.8037	623.0989	884.3318
Philippines	(Peso)	37.50	20.7296	11.6913	16.5929
Pitcairn Is	(£ Sterling)	1.00	0.5527	0.3117	0.4424
	(NZ $)	2.8665	1.5845	0.8936	1.2683
Poland	(Zloty)	910.90	503.5378	283.9906	403.0530
Portugal	(Escudo)	264.50	146.2133	82.4629	117.0353
Puerto Rico	(US $)	1.8090	1	0.5639	0.8004
Qatar	(Riyal)	6.5355	3.6127	2.0375	2.8918
Reunion Is. de la	(F/Fr)	10.9575	6.0572	3.4162	4.8484
Romania	(Leu)	14.781	8.1702	4.6079	6.5398
Rwanda	(Fr)	138.84	76.7495	43.2860	61.4336
St Christopher	(E Carr $)	4.88	2.6976	1.5214	2.1592
St Helena	(£)	1.00	0.5527	0.3117	0.4424
St Lucia	(E Carr $)	4.88	2.6976	1.5214	2.1592
St Pierre	(French Fr)	10.9575	6.0572	3.4162	4.8484
St Vincent	(E Carr $)	4.88	2.6976	1.5214	2.1592
San Marino	(Italian Lira)	2362.00	1305.6937	736.3990	1045.1327
San Tome	(Dobra)	134.6005	74.4060	41.9643	59.5577
Saudi Arabia	(Riyal)	6.6780	3.6915	2.0819	2.9548
Senegal	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Seychelles	(Rupee)	9.5000	5.2515	2.9618	4.2035
Sierra Leone	(Leone)	66.82	36.9375	20.8324	29.5663
Singapore	($)	3.5153	1.9432	1.0959	1.5554
Solomon Is	($)	3.7890	2.0945	1.1812	1.6765
Somali Rep	(Shilling)	440.786	243.6627	137.4235	195.0380
South Africa	(Rand)	4.3043c	2.3793	1.3419	1.9045
		6.9590g	3.8468	2.1696	3.0792
Spain	(Peseta)	204.75	113.1840	63.8347	90.5973
Spanish Ports in N Africa	(Sp Peseta)	204.75	113.1840	63.8347	90.5973
Sri Lanka	(Rupee)	59.50	32.8911	18.5502	26.3274
Sudan Rep	(£)	8.1293	4.4938	2.5344	3.5970
Surinam	(Guilder)	3.2246	1.7825	1.0053	1.4268
Swaziland	(Lilangeni)	4.3043	2.3793	1.3419	1.9045
Sweden	(Krona)	11.0800	6.1249	3.4544	4.9026
Switzerland	(Fr)	2.7175	1.5022	0.8472	1.2024
Syria	(£)	37.9365	20.9709	11.8274	16.7860
Taiwan	($)	50.475	27.9021	15.7365	22.3340
Tanzania	(Shilling)	222.00	122.7197	69.2127	98.2300
Thailand	(Baht)	45.50	25.1520	14.1855	20.1327
Togo Rep	(CFA Fr)	547.88	302.8634	170.8121	242.4247
Tonga Is	(Pa Anga)	2.1155	1.1694	0.6595	0.9360
Trinidad/Tobago	($)	7.6776	4.2441	2.3936	3.3971
Tunisia	(Dinar)	1.6140	0.8922	0.5031	0.7141
Turkey	(Lira)	3287.14	1817.1033	1024.8293	1454.4867
Turks & Caicos	(US $)	1.8090	1	0.5639	0.8004
Tuvalu	(Australian $)	2.1155	1.1694	0.6595	0.9360
Uganda	(New Shilling)	297.8377	164.6421	92.8566	131.7865
U A E	(Dirham)	6.6395	3.6702	2.0699	2.9378
United Kingdom	(£)	1.00	0.5527	0.3117	0.4424
United States	(US $)	1.8090	1	0.5639	0.8004
Uruguay	(Peso)	813.01	449.4250	253.4715	359.7389
USSR	(Rouble)	1.0911	0.6031	0.3401	0.4827
Vanuatu	(Vatu)	182.60	100.9397	56.9290	80.7964
Vatican	(Lira)	2362.00	1305.6937	736.3990	1045.1327
Venezuela	(Bolivar)	26.1035e	14.4297	8.1382	11.5502
		13.5488p	7.4896	4.2240	5.9950
		69.1890i	38.2470	21.5710	30.6146
Vietnam	(Dong)	5058.20	2796.1304	1576.9914	2238.1415
Virgin Is-British	(US $)	1.8090	1	0.5639	0.8004
Virgin Is-US	(US $)	1.8090	1	0.5639	0.8004
Western Samoa	(Tala)	3.4250	1.8933	1.0678	1.5154
Yemen	(Rial)	17.76	9.8175	5.5370	7.8584
Yemen PDR	(Dinar)	0.6196	0.3425	0.1931	0.2741
Yugoslavia	(Dinar)	9263.98	5121.0503	2888.2244	4099.1061
Zaire Rep	(Zaire)	484.20	267.6616	150.9586	214.2477
Zambia	(Kwacha)	17.25	9.5356	5.3780	7.6327
Zimbabwe	($)	3.4850	1.9264	1.0865	1.5420

Abbreviations: (a) Free rate; (b) Bankrate rate; (c) Commercial rate; (d) Controlled rate; (e) Essential imports; (g) Financial rate; (h) Exports; (i) Non commercial rate; (j) Business rate; (k) Buying rate; (l) Luxury goods; (m) Market rate; (o) Official rate; (p) preferential rate; (q) convertible rate; (r) parallel rate; (s) Selling rate; (t) Tourist rate; Some data supplied by Bank of America, Economics Department, London Trading Centre. Enquiries: 01 634 4360/5. Friday 30 December, 1988

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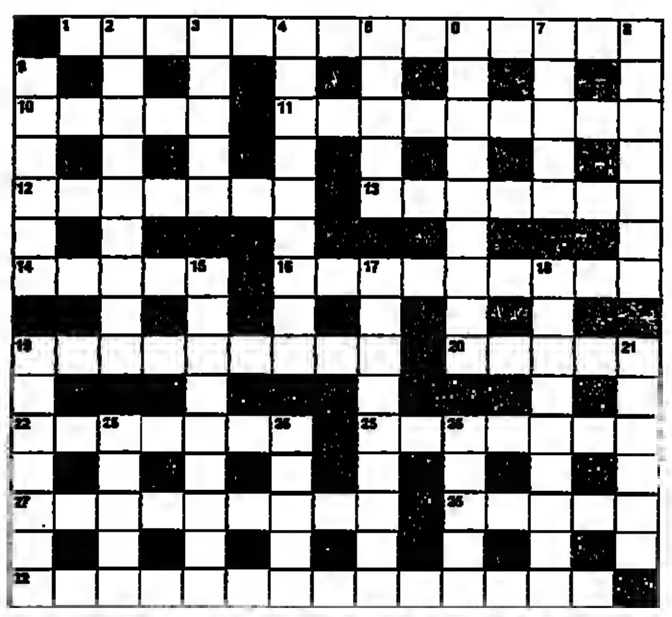
AUTHORISED UNIT TRUSTS

JOTTER PAD

CROSSWORD

No.6,824 Set by DANTE



ACROSS

1 TV sets remained off for the commercials (14)
10 The upshot is to go for the law (5)
11 She cleans out for the steward (9)
12 Does such selling show indolence? (7)
13 Very fine pieces of wood (7)
14 A lot of money for a piano (5)
16 Arouses attention in twisting streets (9)
19 Random inspection to see who has the measles? (4,5)
20 Needs to be close (5)
22 Discloses one in France lives wildly (7)
25 Spots a politician taken in by loads of money (7)
27, 28 Job-seekers' records (9,5)
29 Not a relatively friendly match (7,7)

DOWN

2 Immoderate road speed of a reckless person (9)
3 A key-hole affair (5)
4 Show disinterest in a team on the pitch (4,5)
5 It can be a source of pain when the sun is out (5)
6 The beauty of the universe (4,5)
7 Famous Indian, he comes back in, run out (5)
8 Shows rank subservience (7)
9 To avoid it a child may go into it (6)
15 Setting for a polite refusal (9)
17 Happen to finish in the first three (4,5)
18 The only one in a suit or in a vest (9)
19 Origins of Crusoe's trouble (7)
21 A tree's transformed in March or April (6)
23 Zodiac sign of redhead in Spanish port (5)
24 Show disdain for bad puns about royalty (5)
26 Went on board? (5)

The solution to last Saturday's prize puzzle will be published with names of winners on Saturday January 14.

GUIDE TO UNIT TRUST PRICING

هكذا عن الأصل

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[illegible]

Murray Johnstone UT Mngmt

	Bid Price	Offer Price	Yield Gross	City-line
Murray Exempt Funds				
Amer Expt Dec 29	57.9	59.4	2.42	41064
Euro Expt Dec 29	43.4	45.5	2.10	41065
Fixed Int Ex Dec 29	48.1	50.4	10.15	–
Japan Expt Dec 29	58.4	60.8	0.39	41066
Managed Ex Dec 29	37.0	39.4	4.96	41067
SE Asia Expt Dec 29	37.2	39.0	3.03	41068
Sm Cos Expt Dec 29	39.9	41.8	2.95	41069
UK Eqty Ex Dec 29	33.8	35.4	5.71	41070

New Court Property Fund Managers

	Bid Price	Offer Price	Yield Gross	City-line
NC Property	206.2	216.01	–	41205

Phillips & Drew Fund Management Ltd

	Bid Price	Offer Price	Yield Gross	City-line
PDFM Small Co's Nov 6	774.0	823.0	4.20	41138
Do Accum	799.0	846.0	4.20	41139
PDFM Intl Expt Dec 29	125.6	127.7	2.70	41140

J. Rothschild Fund Managers Ltd

	Bid Price	Offer Price	Yield Gross	City-line
Intl Exempt	96.10	97.33	2.49	40172

INSURANCES

AA Friendly Society
Investment Mngt M & G Inv Mngt Ltd

	Bid Price	Offer Price	Yield Gross	City-line
AA Friendly Sy Dec 9	–	139.4	–	41607

Abbey Life Assurance Co Ltd
80 Holdenhurst Road, Bournemouth 0202 292373

	Bid Price	Offer Price	Yield Gross	City-line
Prop. Ser. 1	263.8	277.7	–	41608
Equity Ser. 1	110.3	116.2	–	41609
Prop. Acc. Ser 2	394.0	414.8	–	41610
Equity Ser 2	125.2	131.8	–	41611
Selective Acc.	294.2	309.7	–	41612
Prop. Ser. 4	318.1	334.9	–	41613
Equity Ser. 4	130.7	137.6	–	41614
Fixed Int. Ser. 4	216.4	227.9	–	41615
Indexed Lnv. Ser. 4	129.0	135.9	–	41616
American Ser. 4	253.7	267.1	–	41617

[illegible]

Black Horse Life Ass. Co Ltd
Mountbatten Hse, Chatham, Kent. 0634 834000

	Bid Price	Offer Price	Yield Gross	City-line
Life Funds				
The Managed Fund	444.02		–	41798
The Income Fund	437.78	460.85	–	41799
The Extra Income Fund	399.15	420.16	–	41800
The W'rldwd Growth Fd	307.49	323.68	–	41801
The Balanced Fund	348.68	366.96	–	41802
Smlr Co's & Rcvy Fd	509.09	534.84	–	41803
The Int Technology Fd	300.39	316.20	–	41804
The Nth Amer & Gen Fd	207.88	218.83	–	41805
The Energy Int Fd	115.79	121.89	–	41806
The Pacific Basin Fund	283.10	298.00	–	41807
The German Growth Fund	109.96	115.75	–	41808
The Japan Growth Fund	182.22	191.82	–	41809
The UK Growth Fund	122.86	129.33	–	41810
The Contl Eur Grth Fd	69.86	73.54	–	41811
Nth Amer S.C. & Rcvy	115.12	121.18	–	41812
The Property Fund	262.76	276.59	–	41813
The Fixed Interest Fd	212.72	223.92	–	41814
The Cash Fund	194.75	205.00	–	41815
The Managed Invest Fd	280.84	295.63	–	41816
Pension Funds				
Managed Pen Fd	110.17	115.97	–	46192
Fixed Int Pen Fd	102.33	107.72	–	46193
Property Pen Fd	126.76	133.08	–	46194
Cash Pen Fd	105.46	111.02	–	46195
UK Equity Pen Fd	100.04	105.31	–	46196
Nth Amer Pen Fd	93.44	98.36	–	46197
European Pen Fd	108.32	114.03	–	46198
Far East Pen Fd	100.26	105.54	–	46199

British National FinancialServices
Perrymount Road, Haywards Heath 0444 414111

	Bid Price	Offer Price	Yield Gross	City-line
Managed	204.0	215.6	–	41817
International	232.6	244.9	–	41818
Property	239.4	252.0	–	41819
Equity	287.3	302.4	–	41820
New Technology	136.8	144.0	–	41821
American	82.6	86.9	–	41822
Orient	94.0	99.7	–	41823
European	78.8	82.9	–	41824
Fixed Interest	163.9	172.5	–	41825
Deposit	136.3	143.5	–	41826

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National Mutual Life
The Priory, Priory Pk, Hitchin, SG5 2DW 0462 422422

	Bid Price	Offer Price	Yield Gross	City-line
Managed Fund	197.0	207.4	—	43122
Managed Prospect Fund	160.5	169.0	—	43123
UK Equity Fd	235.9	248.4	—	43124
Fixed Interest	159.9	168.4	—	43125
Pacific	231.0	243.2	—	43126
North American	103.6	109.1	—	43127
Pens. Managed	221.9	233.6	—	43128
Pens. UK Equity	231.9	244.2	—	43129
Pens. Overseas Equity	288.2	303.4	—	43130
Pens. Property	172.0	181.1	—	43131
Pens. Fixed Interest	173.0	183.0	—	43132
Pens. Index Linked	130.6	137.3	—	43133
Pens. Deposit	164.5	173.2	—	43134
P.R.P. UK Equity	109.6	115.4	—	43135
P.R.P. Overseas Equity	102.6	108.1	—	43136
P.R.P. Fixed Interest	118.2	124.5	—	43137
P.R.P. Property	142.5	150.0	—	43138
P.R.P. Index Linked	118.0	124.3	—	43139
P.R.P. Deposit	113.6	119.6	—	43140
P.R.P. Managed	111.3	117.2	—	43141
P.R.P. With Profits	118.7	125.0	—	43142

National Provident Institution
48 Gracechurch St, London EC3P 3HH 01-623 4200

	Bid Price	Offer Price	Yield Gross	City-line
Managed	292.0	307.4	—	43163
UK Equity	361.0	380.0	—	43164
Overseas Eq.	270.0	284.3	—	43165
American	205.1	215.9	—	43166
Far East	338.0	355.8	—	43167
Property	198.8	209.3	—	43168
Fixed Int.	217.3	229.0	—	43169
Indexed Gilt	127.1	133.8	—	43170
Deposit	145.0	152.7	—	43171
Pension Fund (Accum Units)				
Managed	377.7	397.6	—	43173
UK Equity	421.3	443.5	—	43175
Overseas Eq.	428.0	450.6	—	43177
American	272.7	287.1	—	43179
Far East	568.7	598.7	—	43181
Property	236.7	249.2	—	43183
Fixed Int.	250.9	264.2	—	43185
Indexed Gilt	137.6	144.9	—	43187
Deposit	184.5	194.5	—	43189
NPI Pensions Management Ltd				
Managed Fund	890.1	906.0	—	43190

Prices December 1 Next dealing January 3

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 3NS 0603 683986

Providence Capital Life Assc. Co Ltd
30 Uxbridge Rd, London W12 8PG 01-749 9111

Royal Heritage Life Assurance Ltd—Contd.

Scottish Widows' Group

Sun Alliance Insurance Group—Contd.

MANAGEMENT SERVICES

OFFSHORE AND OVERSEAS

GUERNSEY RECOGNISED

JERSEY RECOGNISED

IoM RECOGNISED

BERMUDA RECOGNISED

OFFSHORE INSURANCES

FT UNIT TRUST INFORMATION SERVICE

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

BRITISH FUNDS

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	"Shorts" (Lives up to Five Years)					
2,250	Treas 11½pc 1989	99[illegible]	12.93	18.7	22 Aug 22 Feb	1291
855	Treas 9½pc Cnv 1989	99[illegible]	12.78	12.9	18 Oct [illegible]	[illegible]
500	Treas 3pc 1989	97[illegible]	11.08	10.10	15Nov [illegible]	[illegible]
1,400	Treas 10½pc 1989	99[illegible]	12.69	7.11	14Dec [illegible]	[illegible]
2,400	Exch. 10pc 1989	[illegible]	12.62	28.12	1 Feb [illegible]	[illegible]
2,000	Exch 11pc 1989	99[illegible]	12.22	23.8	29 Mar [illegible]	[illegible]
601	Treas 5pc 1986-89	95[illegible]	10.58	8.9	15 Apr 15[illegible]	[illegible]
535	Exch 10¼pcCv '89	99[illegible]	11.31	10.10	15 May 15 [illegible]	[illegible]
1,000	Treas 13pc 1990‡‡	101[illegible]	11.73	9.12	15 Jul 15 Jan	[illegible]
1,400	Exch 11pc 1990‡‡	99[illegible]	11.70	6.7	12 Aug 12 Feb	[illegible]
1,250	Exch. 12½pc 1990	100[illegible]	11.74	16.8	22 Sep 22 Mar	[illegible]
550	Treas. 3pc 1990	91[illegible]	9.98	3.10	8 Nov 8 May	[illegible]
600	Treas 8¼pc 1987-90‡‡	96[illegible]	11.18	8.11	15 Dec 15[illegible]	[illegible]
1,000	Treas. 8pc Cv 1990 ‡‡	96[illegible]	10.45	12.12	16 Jul [illegible]	[illegible]
1,687	Treas. 10pcCv 1990	97[illegible]	11.39	19.9	25 Apr 2[illegible]	[illegible]
500	Exch 2½pc 1990	88[illegible]	9.53	17.10	22 May 22[illegible]	[illegible]
2,200	Treas 11¾pc 1991	100[illegible]	11.31	5.12	10 Jul 10 Jan	[illegible]
400	Funding 5¾pc '87-91‡‡	98[illegible]	10.79	1.9	5Oct 5Apr	[illegible]
400	Treas. 3pc 1991	86[illegible]	9.53	7.10	15Nov 13 May	[illegible]
646	Treas 10pc Cv '91 ‡‡	98[illegible]	10.68	6.12	12Jan 12Jul	[illegible]
1,550	Exch. 11pc 1991	99[illegible]	11.05	19.9	25Apr [illegible]	[illegible]
1,350	Treas. 8pc 1991	92[illegible]	10.98	3.11	10Jan [illegible]	[illegible]
900	Treas 12¾pc 1992‡‡	104[illegible]	10.82	16.12	22Jul [illegible]	[illegible]
1,600	Treas 10pc 1992	97[illegible]	10.88	15.7	21Aug 21[illegible]	[illegible]
1,400	Treas. 8pc 1992 ‡‡	92[illegible]	10.85	6.9	13Oct [illegible]	[illegible]
1,288	Treas 10½pc Cv 1992‡‡	99[illegible]	10.81	3.10	7 Nov 7 [illegible]	[illegible]
500	Treas. 3pc 1992	82[illegible]	9.08	4.11	11Dec 11[illegible]	[illegible]
1,350	Exch. 12¼pc '92	104[illegible]	10.82	19.7	25 Feb 25[illegible]	[illegible]
1,757	Exch 13½pc 1992	108[illegible]	10.77	16.8	22Mar 22Sep	1266
950	Treas 8¾pc 1993	92[illegible]	10.57	12.7	18Aug 18Feb	–
2,850	Treas 10pc 1993‡‡	98[illegible]	10.47	8.9	15Oct 15Apr	1279
1,100	Treas 12½pc 1993‡‡	106[illegible]	10.65	8.12	14Jan 14Jul	1296
600	Funding 6pc 1993‡‡	86[illegible]	9.76	9.8	15Mar 15Sep	1276
1,250	Treas 13¾pc 1993‡‡	111[illegible]	10.64	17.10	23May 23Nov	1304
	Five to Fifteen Years					
2,050	Treas. 8½pc 1994	91[illegible]	10.62	28.12	3Aug 3Feb	–
750	Treas 8½pc 1994 A	92[illegible]	10.62	28.12	3 Feb 3[illegible]	–
600	Treas 14½pc 1994‡‡	115[illegible]	10.60	26.7	1 Sep 1 Mar	[illegible]
1,100	Exch 13½pc 1994	111[illegible]	10.68	20.9	27Oct 27[illegible]	[illegible]
1,400	Treas. 10pc Ln. 1994‡‡	98[illegible]	10.43	2.11	9Dec 9[illegible]	[illegible]
1,550	Exch. 12½pc 1994	107[illegible]	10.68	18.7	22Feb 22[illegible]	[illegible]
1,600	Treas 9pc 1994‡‡	94[illegible]	10.39	11.10	17May [illegible]	[illegible]
2,350	Treas 12pc 1995	106[illegible]	10.60	19.12	25Jul [illegible]	[illegible]
229	Exch 3pc Gas 90-95	77[illegible]	7.02	26.9	1Nov [illegible]	[illegible]
2,100	Exch. 10¼pc 1995	99[illegible]	10.42	15.12	21Jan [illegible]	[illegible]
1,000	Treas 12¾pc 1995‡‡	110[illegible]	10.47	10.10	15May [illegible]	[illegible]
900	Treas. 14pc '96	116[illegible]	10.65	16.12	22Jul [illegible]	[illegible]
750	Treas. 9pc 1992-96‡‡	93[illegible]	10.21	9.8	15Sep [illegible]	[illegible]
1,350	Treas 15¼pc 1996‡‡	123[illegible]	10.59	27.9	3Nov 3May	1309
800	Exch 13¼pc 1996‡‡	114[illegible]	10.47	10.10	15Nov 15May	1268
1,109	Conversion 10pc 1996	98[illegible]	10.30	10.10	15May 15Nov	1240
1,500	Treas 13¼pc 1997‡‡	115[illegible]	10.44	16.12	22Jul 22Jan	1302
3,100	Exch 10½pc 1997	100[illegible]	10.34	15.7	21Aug 21Feb	1253
3,750	Treas 8¾pc 1997‡‡	92[illegible]	10.13	26.7	1Mar 1Sep	1341
1,000	Exch 15pc 1997	124[illegible]	10.59	20.9	27Apr 27Oct	1269
2,850	Exch. 9¾pc 1998	97[illegible]	10.22	13.12	19 Jul 19 Jan	1273
1,000	Treas 6¾pc 1995-98‡‡	83[illegible]	9.76	26.9	1Nov 1May	1331
1,100	Treas. 15½pc '98‡‡	134[illegible]	10.43	24.8	30Mar 30Sep	1308
2,500	Exch. 12pc 1998	110[illegible]	10.30	14.10	20May 20Nov	1259
1,250	Treas 9½pc 1999‡‡	97[illegible]	9.95	9.12	15Jul 15Jan	1347
2,900	Exch. 12¼pc 1999	112[illegible]	10.28	22.8	26Sep 26Mar	1264
[illegible]	Treas. 10½pc 1999	102	10.18	13.10	19Nov [illegible]	[illegible]
[illegible]	Conversion 10¼pc 1999	100[illegible]	10.17	17.10	22May [illegible]	[illegible]
[illegible]	Treas. 8½pc Ln 2000‡‡	90[illegible]	9.91	22.12	28Jan [illegible]	[illegible]
[illegible]	Conversion 9pc 2000‡‡	93[illegible]	9.94	28.7	3Sep [illegible]	[illegible]
[illegible]	Treas. 13pc 2000	118[illegible]	10.28	8.12	14Jan [illegible]	[illegible]
[illegible]	Treas 10pc 2001	99[illegible]	9.99	20.7	26 Aug 26 [illegible]	[illegible]
[illegible]	Treas. 14pc '98-01	120[illegible]	10.48	17.10	22Nov [illegible]	[illegible]
[illegible]	Conversion 9¾pc 2001	98[illegible]	9.96	4.7	10Feb [illegible]	[illegible]
[illegible]	Exch. 12pc '99-02	110[illegible]	10.34	16.12	22Jul [illegible]	[illegible]
[illegible]	Conversion 10pc 2002	100[illegible]	9.88	5.9	11 Oct [illegible]	[illegible]
[illegible]	Treas 9¾pc 2002	99[illegible]	9.84	21.7	27 Feb 2[illegible]	[illegible]
[illegible]	[illegible] 9pc 2002	94[illegible]	9.77	13.10	19May [illegible]	[illegible]
[illegible]	Treas. 13¾pc 2000-03	122[illegible]	10.33	19.12	25Jan [illegible]	[illegible]
[illegible]	Treas 10pc 2003	[illegible]	[illegible]	2.8	8 Mar 8 Sep	[illegible]

Over Fifteen Years

[illegible]

BRITISH FUNDS—Contd

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
	Undated					
359	Consols 4pc	43[illegible]	–	28.12	1Feb 1Aug	1239
1,909	War Loan 3½pc‡‡	39[illegible]	–	22.11	1Jun 1Dec	1352
140	Conv. 3½pc '61 Aft	61¼	–	25.8	1Apr 1Oct	1243
56	Treas. 3pc '66 Aft	32[illegible]	–	1.9	5Apr 5Oct	1324
276	Consols 2½pc	27[illegible]	–	1.12	5Ja Ap Jul O	1238
475	Treas. 2½pc	27[illegible]	–	25.8	1Apr 1Oct	1315
	Index-Linked	(b)	**			
500	Treas 2pc IL '90(84.6)	124[illegible]	3.87	19.12	25 Jul 25 Jan	1311
650	Do. 2pc '92‡‡(97.8)	103[illegible]	3.76	17.8	23Mar 23Sep	1312
400	Do. 2'94 (102.9)	94[illegible]	3.84	10.10	16Nov 16May	–
1,000	Do. 2pc '96(67.9)	139[illegible]	3.75	10.8	16Mar 16Sep	1313
900	Do 2½pc '01(78.3)	118[illegible]	3.81	18.8	24Mar 24Sep	1316
800	Do. 2½pc '03(78.8)	115[illegible]	3.84	14.10	20Nov 20May	1317
1,200	Do. 2pc '06(69.5)	117[illegible]	3.84	13.12	19Jan 19Jul	1314
950	Do. 2½pc '09(78.8)	116[illegible]	3.93	14.10	20Nov 20May	1318
1,350	Do. 2½pc '11(74.6)	114[illegible]	3.80	18.7	23Feb 23Aug	1319
1,100	Do. 2½pc '13(89.2)	95¼	3.78	11.7	16Feb 16Aug	1320
1,700	Do. 2½pc '16(81.6)	102[illegible]	3.75	20.12	26Jan 26Jul	1321
1,400	Do. 2½pc '20(83.0)	100[illegible]	3.68	9.9	16Oct 16Apr	1322
900	Do. 2½pc '24‡‡(97.7)	[illegible]	3.64	12.12	17Jan 17Jul	1323

**Prospective real redemption rate on projected inflation of 5%. (b) Figures in parentheses show RPI base month for indexing, (ie 8 months prior to issue) and have been adjusted to reflect rebasing of RPI to 100 in January 1987. Conversion factor 3.945. RPI for April 1988:105.8 and for November 1988:110.0

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Amount £m	Stock	Price £	Red. Yld.	Last xd	Interest Due	City-line
50	African Dv Bk 11¼Ln 2010	104[illegible]	10.62	1.12	4 Jan 4 Jun	–
100	Asian Dev Bk 10¼pcLn2009	100[illegible]	10.21	26.9	24Mar 24Sep	–
100	Australia 13½pc 2010	125[illegible]	10.50	24.6	28Jan 28Jul	–
100	Do. 11¾pcLn2015	109[illegible]	10.36	22.9	26Apr 26Oct	–
75	Euro Inv Bk 11pc Ln 2002	103[illegible]	10.44	23.8	23Mar 23Sep	–
100	Do. 10¾pc2004	99[illegible]	10.39	24.10	22Mar 22Nov	–
75	Int-Am Dev Bk 12½pc 2003	114[illegible]	10.54	7.12	8Jan 8Jul	–
175	Do. 9¾pcLn 2015	95¼	10.22	13.10	15 May 15 Nov	–
75	Mlysia 10¾pcLn 2009	94[illegible]	11.53	27.6	31 Jan 31 Jul	–
50	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	–

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Building Societies

[illegible]

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

Continued on next page

Money Market Trust Funds

[illegible]

Money Market Bank Accounts

[illegible]

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AMERICANS—Contd

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
143.1	♥Unilab	154p	—	—	—	—	—
3,016.7	Utd. Technologies	23	$1.60	5.8	15.11	Mr Ju Sp De	4381
—	♥Unitech Inc.	128p	—	—	—	—	—
6,436.9	US West‖	32¼	$3.52	6.1	13.4	Fb My Ag Nv	—
5,229.9	♥Waste Management $1	23	48c	1.1	16.12	Ap Jy Oc Ja	4439
943.3	Whirlpool $1	13¾	$1.10	4.5	30.11	Mr Ju Se De	—
1,961.8	Whitman Corp.	17½	96c	3.0	6.12	Ap Jy Oc Ja	2951
1,900.5	♥Woolworth $3½	38	$1.64	5.1	19.11	Mr Je Se De	4540

CANADIANS

Market Cap. £m	Stock	Price £	Div Gross	Y'ld Gr's	Last xd	Dividends Paid	City-line
—	♥ABM Gold Corp ‖	140p	—	—	—	—	—
—	♥Abbot Energy Corp.	7p	—	—	—	—	—
519.5	♥Amer. Barrick Res.	982p	—	—	—	—	—
—	♥Amer. Lightwave ‖	30	—	—	—	—	—
—	♥Armeno	37¼p	—	—	—	—	—
—	♥Augmitto Expls.	24p	—	—	—	—	—
1,351.5	Bk. Montreal ‖	13	$2.00	7.0	8.8	Fb My Ag Nv	—
1,121.2	Bk. Nova Scot. ‖	676p	76c	5.1	28.9	Ja Ap Ju Oc	—
4,694.5	BCE ‖	17½	$2.44	6.4	6.6	Ap Jy Oc Ja	—
241.4	♥Bow Valley‖	583p	40c	3.1	15.12	May Nov.	—
848.6	♥Brascan‖	12½	88c	3.2	28.10	Ja Ap Jy Oc	—
41.7	♥Bralorne Res.	186p	10c	2.4	—	—	—
1,799.8	Can. Imp Bank‖	11½	$1.16	4.6	29.6	Fe My Au No	—
3,068.6	Can. Pacific ‖	10½	76c	3.4	28.9	July Jan.	—
18.0	Do. 4pc Deb £100.	38½	4%	10.4	24.11	July Jan	2051
—	Central Capital "A" ‖	390p	—	—	—	—	—
—	♥Corona Corp.	349p	—	—	—	—	—

[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS — Contd

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Contd

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS (Miscel.)—Contd

[illegible]

INDUSTRIALS (Miscel.)—Contd.

[illegible]

INSURANCES

[illegible]

LEISURE

[illegible]

هكذا من الأصل

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LEISURE—Contd

PROPERTY

TEXTILES—Contd

TRUSTS, FINANCE, LAND—Contd

OIL AND GAS—Contd

MINES—Contd

Tins

Miscellaneous

MOTORS, AIRCRAFT TRADES

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

Finance, Land, etc

OIL AND GAS

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

THIRD MARKET

Market Cap £m	Stock	Price	Div Net	Y'ld Gr's	Last xd	Dividends Paid	City Line
8.19	Royal Sovereign 10p. y	185	14.6	3.3	3.10	May Nov	1505
1.44	Scott Pickford 10p y	20½	3.1	20.2	–	–	5062
6.60	Seacon Hldgs. y	95	21.0	1.4	19.9	October	
8.93	Sonic Tape 2½p y	71½	–	–	–	–	
5.25	Stalis Hldgs. 5p y	19	–	–	–	–	
3.56	Swangard Studios 1p y	2½	–	–	–	–	
24.9	Takare y	285	bL0	0.5	–	–	
3.14	Tomorrows Leisure 20p y	28	–	–	–	–	
12.2	Tullow Oil 10p y	19	–	–	–	–	
4.43	UPL Group 10p y	118	12.41	2.9	28.11	June	
7.59	Unit Group y	147	F7.5	6.8	28.11	Jan July	
9.22	Whitegate Leisure 20p y	13	–	–	–	–	
0.67	Do. Wrrnts y	10	–	–	–	–	
0.84	Wilton Group y	5½	–	–	23.11	–	

NOTES

Stock Exchange dealing classifications are indicated to the right of security names: α Alpha, β Beta, γ Gamma.

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Yields are based on middle prices, are gross, adjusted to ACT of 25 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock"
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- ‡‡ Tax-free to non-residents on application
- ♥ Not officially UK listed; dealings permitted under rule 535(4)(a)
- ♣ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- # Price at time of suspension
- ¶ Indicated dividend after pending scrip and/or rights issue.
- ♦ Merger bid or reorganisation in progress
- ♣ Not comparable
- ♣ Same interim; reduced final and/or reduced earnings indicated
- § Forecast dividend.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date.
- ‖ No par value

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. s Dividend and yield exclude a special payment. t Indicated dividend. u Forecast, or estimated annualised dividend rate. v Subject to local tax. y Dividend and yield based on merger terms. z Dividend and yield include a special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1988-89. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1989. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend. M Dividend and yield based on prospectus or other official estimates for 1988. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xt ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p y	67	......
Craig & Rose £1 y	710	......
Finlay Pkg. 5p y	86	+1
Holt (Jos) 25p y	£11⅛	+⅛

IRISH

Cm. 8¾% Ln. 1991	£99⅝	......
9pc Cap Ln. 1996	£103¼	......
Fin. 13% 97/02	£124¼	......
Arnotts	385	......
Carroll (P.J.) y	145	......
Grafton Grp. y	143	......
Hall (R. & H.)	153	......
Helton Hldgs. y	60	......
Irish Ropes	178	......

TRADITIONAL OPTIONS

3-month call rates

Industrials

	p
Allied-Lyons	40
Amstrad	18
BA7	40
BOC Grp.	36
BSR	7½
BTR	26
Barclays	34
Beecham	40
Blue Circle	39
Boots	20
Bowaters	38
Brit Aerospace	42
Brit. Telecom	21
Burton Ord.	18
Cadburys	31
Charter Cons.	45
Comm Union	28
Courtaulds	26
FKI Babcock	13
FNFC	21
Gen Accident	71
GEC	15
Glaxo	90
Grand Met.	38
GUS 'A'	90
Guardian	14
GKN	28
Hanson	12
Hawker Sidd.	48
ICI	85
Jaguar	22
Ladbroke	38
Legal & Gen.	26
Lex Service	34
Lloyds Bank	29
Lucas Inds.	48
Marks & Spencer	15
Midland Bk.	35
Morgan Grenfell	28
NEI	12
Nat West Bk.	45
P & O Dfd.	48
Plessey	15
Polly Peck	28
Racal Elect.	25
RHM	32
Rank Org Ord.	63
Reed Intnl.	38
STC	24
Sears	15
TI	32
TSB	9
Tesco	12
Thorn EMI	55
Trust Houses	24
T&N	16
Unilever	42
Vickers	15
Wellcome	42

Property

Brit Land	30
Land Securities	52
MEPC	50
Peachey	54

Oils

Brit Petroleum	21
Do. (P.Paid)	12
Burmah Oil	40
Calor	36
Charterhall	2½
Premier	5½
Shell	85
Ultramar	21

Mines

Cons Gold	100
Lonrho	38
RTZ	40

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CURRENCIES, MONEY AND CAPITAL MARKETS

FOREIGN EXCHANGES

D-Mark may have room for improvement

By Colin Millham

THE D-MARK has lost ground to the major currencies outside the European Monetary System during the last year. Against the background of a strong West German economy, the D-Mark seems set for some upward adjustment in 1989, in terms of currencies other than the Japanese yen.

The West German Bundesbank did not appear to be very happy with the surge in the value of the dollar at the year-end. Mr Helmut Schlesinger, vice president of the Bundesbank, said the dollar's current levels are not supportive of the adjustment process in world trade. This appears to indicate that the Bundesbank sees another decline in the dollar as necessary if the US trade deficit is to be cut.

Last year saw an overall firming of the dollar and sterling against the D-Mark and most other major European currencies. The Japanese yen showed little change against the dollar and the pound, and therefore also rose against Continental currencies, including the D-Mark. The outstanding performance by the Japanese economy seems set to continue in the New Year, and the yen is therefore expected to rise.

The D-Mark fell to a cross rate of around Y70.00, compared with Y77.00 at the beginning of the year. The dollar rose to DM1.7740 from DM1.5740, and the pound improved to DM3.2075 from DM2.9600.

With the US and Britain running very large balance of payments deficits, it seems fairly obvious that it is only interest rate differentials in favour of New York and London that have kept sterling and the dollar so strong.

At the same time it should be pointed out that the dollar has fallen from a peak of DM3.4510 in February 1985, and therefore any further scope for depreciation this year must be limited.

West Germany is in the favourable position of having relatively low inflation, and a currency at very competitive levels against the dollar, yen and sterling. It has not even had this position challenged within the European Monetary System.

The rate between the D-Mark and the French franc is the key to any change of parities within the EMS, and the French Government has recently clearly declared its determination not to allow a devaluation of the franc.

Sterling opened last year at DM2.96, and moved up towards the DM3.00 level during the first two months of the year. In early March the Bank of England was forced to succumb to pressure and allow the pound to rise above DM3.00. It has since climbed to around the DM3.20 level, supported by a rise in UK bank base rates to 13 p.c., from and a low of 7½ p.c. in May.

The pound has gained from the interest rate differential between London and Frankfurt, and is likely to remain firm while the UK authorities continue to worry about inflationary pressure.

A slide in sterling's value seems likely later this year however, assuming that inflation begins to fall, and the Bank of England relaxes the strait jacket on the economy, allowing interest rates to decline.

Forecasts in the City suggest the pound may retreat to DM3.10 in the second half of this year and could test the DM3.00 at some time.

Currencies traded within a narrow range yesterday, with Frankfurt the only major financial centre open for business. The dollar was fixed at DM1.7675 against a fixing of DM1.7803 on Friday, and there was no intervention by the Bundesbank.

Trading was extremely quiet, and many banks closed their books after the fixing session.

£ IN NEW YORK

Dec.30	Close	Previous Close
£ Spot	1.8100-1.8110	1.7901-1.7911
1 month	[illegible]	[illegible]
3 months	[illegible]	[illegible]
12 months	[illegible]	[illegible]

Forward premiums and discounts apply to the US dollar

STERLING INDEX

	Dec.30	Previous
8.30 am	[illegible]	77.3
9.00 am	[illegible]	77.4
10.00 am	[illegible]	77.3
11.00 am	[illegible]	77.3
Noon	[illegible]	77.3
1.00 pm	[illegible]	77.3
2.00 pm	[illegible]	77.4
3.00 pm	[illegible]	77.3
4.00 pm	[illegible]	77.4

Sterling index is now based on 1985 values and revised currency weightings. Previous figures are based on levels in 1975.

CURRENCY RATES

Dec.30	Bank rate %	Special* Drawing Rights	European Currency Unit
Sterling	—	[illegible]	[illegible]
U.S. Dollar	6.50	[illegible]	[illegible]
Canadian $	8.75	[illegible]	[illegible]
Austrian Sch.	4	[illegible]	[illegible]
Belgian Franc	7.75	[illegible]	[illegible]
Danish Krone	7	[illegible]	[illegible]
Deutsche Mark	3½	[illegible]	[illegible]
Neth. Guilder	4½	[illegible]	[illegible]
French Franc	9½	[illegible]	[illegible]
Italian Lira	12½	[illegible]	[illegible]
Japanese Yen	2½	[illegible]	[illegible]
Norway Krone	8	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]
Swedish Krona	8½	[illegible]	[illegible]
Swiss Franc	3½	[illegible]	[illegible]
Greek Drach.	20½	[illegible]	[illegible]
Irish Punt	—	N/A	0.778450

*All SDR rates are for Dec.29

CURRENCY MOVEMENTS

Dec.30	Bank of England Index	Morgan Guaranty Changes %
Sterling	97.4	-14.9
U.S. Dollar	65.3	-12.9
Canadian Dollar	100.9	-1.4
Austrian Schilling	107.1	+9.9
Belgian Franc	99.4	-5.9
Danish Kroner	104.7	-0.6
Deutsche Mark	111.8	+21.2
Swiss Franc	109.8	+19.0
Guilder	110.8	+13.4
French Franc	93.3	-15.5
Lira	97.8	-20.1
Yen	153.5	+84.6

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base Average 1985=100) *Rates are for Dec.29

OTHER CURRENCIES

Dec.30	£	$
Argentina	[illegible]	16.2900
Australia	[illegible]	1.1725
Brazil	[illegible]	756.55
Finland	[illegible]	4.1650
Greece	[illegible]	149.20
Hong Kong	[illegible]	7.8090
Iran	[illegible]	[illegible]
Korea(Sth)	[illegible]	687.40
Kuwait	[illegible]	0.28155
Luxembourg	[illegible]	37.30
Malaysia	[illegible]	2.7100
Mexico	[illegible]	2290.00
N. Zealand	[illegible]	1.5900
Saudi Ar.	[illegible]	3.7510
Singapore	[illegible]	1.9450
S. Af (Cm)	[illegible]	2.3830
S. Af (Fn)	[illegible]	3.8035
Taiwan	[illegible]	28.25
U.A.E.	[illegible]	3.6735

*Selling rate

EURO-CURRENCY INTEREST RATES

Dec.30	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
Sterling	12⅞-12⅝	12⅞-12⅝	13-12⅞	13⅛-13¼	13⅛-13¼	12½⅜-12½⅜
US Dollar	10⅛-10	9¾-9⅝	9⅛-9	9¾-9¼	9⅞-9¼	9⅞-9¼
Can. Dollar	9⅛-9	9⅞-9⅝	10⅛-10	10⅜-10⅛	11⅛-10⅞	11⅛-11
D. Guilder	5⅛-5½	5⅝-5½	5⅞-5¾	5⅞-5⅝	5⅞-5⅛	5⅞-5⅛
Sw. Franc	4½-4⅛	4⅝-4⅜	4⅞-4⅜	4⅞-4⅝	4⅞-4⅛	4⅞-4⅛
Deutschmark	5⅛-5⅛	5⅝-5⅛	5⅝-5⅛	5⅞-5⅝	5⅞-5⅞	5⅞-5⅛
Fr. Franc	8⅜-8⅞	8⅜-8⅞	8⅜-8⅞	8⅝-8⅞	8⅜-8⅝	8⅝-8⅞
Italian Lire	12-10	12-10	11⅛-11⅛	12⅛-11⅛	12⅛-11⅛	12⅞-12⅛
B. Fr. (Fin)	7⅛-7⅛	7⅞-7⅛	7⅞-7⅝	7⅞-7⅞	7⅞-7⅛	7⅞-7⅛
B. Fr. (Con.)	7⅛-7⅝	7⅝-7⅛	7⅝-7⅝	7⅞-7⅝	7⅞-7⅝	7⅞-7⅝
Yen	5⅛-5	4⅞-4⅝	4⅞-4⅞	4⅞-4⅞	4⅝-4⅛	4⅝-4⅝
D. Krone	8⅝-8⅛	8⅞-8⅛	8⅛-7⅞	8⅛-7⅞	8⅞-8	8⅛-8⅞
Asian $Sing	9⅞-9⅝	9⅞-9⅞	9⅛-9⅛	9⅞-9⅞	9⅛-9⅞	9⅝-9⅛

Long term Eurodollars: two years 9⅞-9⅛ per cent; three years 9⅞-9⅛ per cent; four years 9½-9⅞ per cent; five years 9½-9½ per cent nominal. Short term rates are call for US Dollars and Japanese Yen; others, two days' notice.

EXCHANGE CROSS RATES

Dec.30	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1	1.809	3.208	226.0	10.96	2.718	3.623	2362	2.154	67.40
$	0.553	1	1.773	124.9	6.059	1.502	2.003	1306	1.191	37.26
DM	0.312	0.564	1	70.45	3.416	0.847	1.129	736.3	0.671	21.01
YEN	4.425	8.004	14.19	1000.	48.50	12.03	16.03	10451	9.531	298.2
F Fr.	0.912	1.651	2.927	206.2	10.	2.480	3.306	2155	1.966	61.50
S Fr.	0.368	0.666	1.180	83.15	4.032	1	1.333	869.0	0.792	24.80
H Fl.	0.276	0.499	0.885	62.38	3.025	0.750	1	651.9	0.595	18.60
Lira	0.423	0.766	1.358	95.68	4.640	1.151	1.534	1000.	0.912	28.54
C $	0.464	0.840	1.489	104.9	5.088	1.262	1.682	1097	1	31.29
B Fr.	1.484	2.684	4.760	335.3	16.26	4.033	5.375	3504	3.196	100.

Yen per 1,000: French Fr. per 10: Lira per 1,000: Belgian Fr. per 100.

POUND SPOT- FORWARD AGAINST THE POUND

Dec.30	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.7945 - 1.8115	1.8085 - 1.8095	0.59-0.56cpm	3.81	1.62-1.56pm	3.50
Canada	2.1415 - 2.1615	2.1535 - 2.1545	0.51-0.41cpm	2.56	1.15-0.99pm	1.99
Netherlands	3.61 - 3.62¼	3.61¾ - 3.62¾	2¼-2⅛cpm	7.45	6⅛-6¼pm	6.90
Belgium	67.00 - 67.50	67.35 - 67.45	36-30cpm	5.88	94-85pm	5.31
Denmark	12.39¾ - 12.46¾	12.40½ - 12.41½	5⅝-4⅞orepm	5.14	15¼-14pm	4.69
Ireland	1.1980 - 1.2045	1.2010 - 1.2020	0.50-0.43pm	4.64	1.37-1.27pm	4.39
W. Germany	3.19¾ - 3.21½	3.20½ - 3.21	2¼-2pfpm	7.72	5⅞-5¼pm	7.25
Portugal	264.00 - 267.90	264.00 - 265.00	23pm-15dis	-0.18	par-93dis	-0.70
Spain	204.35 - 205.95	204.60 - 204.90	20-10cpm	0.88	51-31dis	0.80
Italy	2353¼ - 2373¼	2361½ - 2362½	4-1lirepm	1.27	7-3pm	0.85
Norway	11.81½ - 11.89½	11.87¾ - 11.88¾	1½-½orepm	0.88	3½-2¼pm	0.95
France	10.92¼ - 10.97	10.95¼ - 10.96¼	4⅛-4orepm	4.52	11¾-11¼pm	4.18
Sweden	11.03¾ - 11.10½	11.07½ - 11.08½	3⅛-2¼orepm	2.98	7⅞-6¼pm	2.50
Japan	225¼ - 226¾	225½ - 226½	1⅞-1½ypm	8.63	4⅞-4⅞pm	7.96
Austria	22.52 - 22.65	22.54 - 22.57	13¾-12⅛gropm	7.02	39¾-37¼pm	6.79
Switzerland	2.70¾ - 2.72¼	2.71¼ - 2.72¼	2-1⅞cpm	8.56	5⅞-5¼pm	7.82

Belgian rate is convertible francs. Financial franc 67.50-67.60. Six-month forward dollar 2.87-2.65cpm 12 months 4.88-4.44cpm

DOLLAR SPOT- FORWARD AGAINST THE DOLLAR

Dec.30	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.7945 - 1.8115	1.8085 - 1.8095	0.59-0.56cpm	3.81	1.61-1.56pm	3.50
Ireland†	1.4990 - 1.5095	1.5040 - 1.5050	0.28-0.33cdis	-2.43	0.60-0.70dis	-1.72
Canada	1.1900 - 1.1940	1.1930 - 1.1940	0.11-0.14cdis	-1.26	0.43-0.48dis	-1.53
Netherlands	1.9980 - 2.0180	2.0020 - 2.0030	0.61-0.58cpm	3.56	1.71-1.67pm	3.37
Belgium	37.10 - 37.50	37.20 - 37.30	7.50-6.50cpm	2.10	18.50-15.00pm	1.80
Denmark	6.84 - 6.90¼	6.85¾ - 6.86¼	1.00-0.50orepm	1.31	2.50-1.75pm	1.24
W. Germany	1.7680 - 1.7880	1.7735 - 1.7745	0.61-0.58pfpm	4.02	1.71-1.67pm	3.82
Portugal	146¾ - 148	146½ - 146¾	35-55cdis	-3.64	130-180dis	-4.17
Spain	113.10 - 114.55	113.25 - 113.35	20-30cdis	-2.65	80-90dis	-3.00
Italy	1303¾ - 1315½	1305¾ - 1306¾	2.30-3.30liredis	-2.57	8.30-9.30dis	-2.70
Norway	6.55 - 6.58¾	6.56¼ - 6.56¾	1.50-1.75oredis	-2.97	4.00-4.50dis	-2.59
France	6.04¾ - 6.10	6.05½ - 6.06	0.40-0.30cpm	0.69	1.20-1.00pm	0.73
Sweden	6.11¾ - 6.15¾	6.12¾ - 6.12¾	0.30-0.55oredis	-0.83	1.30-1.80dis	-1.01
Japan	124.60 - 125.85	124.95 - 125.05	0.53-0.50ypm	4.94	1.44-1.40pm	4.54
Austria	12.50¾ - 12.52¾	12.50¾ - 12.51¾	3.90-3.30gropm	3.45	11.75-10.15pm	3.50
Switzerland	1.4980 - 1.5150	1.5020 - 1.5030	0.63-0.59cpm	4.87	1.66-1.61pm	4.35

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.30-37.40.

MONEY MARKETS

Interest rates rose in major centres in 1988

THERE WAS an upward trend in world interest rates last year, illustrated by a strong rise in London rates, and to a lesser extent in New York.

UK bank base rates began the year at 8½ p.c., and slipped to a low of 7½ p.c. on May 18 as demand for sterling increased. The pound rose to around DM3.20 in mid-May, but it has taken a rise to 13 p.c. in base rates in the meantime to hold the pound at that level.

A deterioration of the UK trade position, and rising inflationary pressure resulted in a rise of nearly 1 p.c. a month in base rate during the second half of the year.

There is now some debate on whether a strong M0 money supply figure - well outside the target range of 1 p.c. to 5 p.c. on the evidence of the latest bank return from the Bank of England - will result in another rise in base rates.

In New York Federal funds finished the year at around 10 p.c., compared with 7¼ p.c. at the end of 1987. This was largely a reflection of strong demand for money at the year-end, but the Federal Reserve's target rate was believed to be at least 8¾ p.c. A rise in the US discount rate from 6½ p.c. is already well discounted in the market.

UK clearing bank base lending rate 13 per cent from November 25

In Frankfurt the Bundesbank's discount rate has risen to 3½ p.c. from 2½ p.c. during the year, and the Lombard rate to 5½ p.c. from 4½ p.c.

Pressure on money supply targets, a firm dollar and a competitively valued D-Mark suggest there is unlikely to be any early demand for a reduction in West German interest rates.

MONEY RATES

NEW YORK (4pm) — Treasury Bills and Bonds

Prime rate	10½	One month	7.18	Three year	9.16
Broker loan rate	10¾	Two month	8.32	Four year	9.17
Fed.funds	9	Three month	8.37	Five year	9.14
Fed.funds at intervention	10	Six month	8.67	Seven year	9.18
		One year	9.03	10-year	9.14
		Two year	9.14	30-year	9.00

Dec.30	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	5.45-5.55	5.25-5.40	5.25-5.40	5.25-5.40	5.30-5.50	5.50
Paris	8⅛-8¼	8⅛-8¼	8¼-8⅛	8⅜-8¼	8⅜-8⅛	7.25
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-

LONDON MONEY RATES

Dec.30	Overnight	7 days notice	One Month	Three Months	Six Months	One Year
Interbank Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12⅞
Interbank Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12⅞
Sterling CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12⅞
Local Authority Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12⅞
Local Authority Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Discount Mkt. Deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Company Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	12⅞
Finance House Deposits	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Treasury Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Bank Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Fine Trade Bills (Buy)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-
Dollar CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.50-9.45
SDR Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8⅞
SDR Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	7⅞
ECU Linked Dep Offer	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8¼
ECU Linked Dep Bid	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	8⅛

[illegible] Finance Houses Base Rate 13 from January 1, 1989: Bank Deposit Rates for sums at seven days' notice [illegible] Certificates of Tax Deposit (Series 6): Deposit £100,000 and over held under one month [illegible]; one-three months [illegible]; three-six months [illegible]; six-nine months [illegible] p.c.; nine-twelve months [illegible] p.c. Under £100,000 [illegible] per cent from July 5, 1988. Deposits withdrawn for cash 5 per cent.

FT LONDON INTERBANK FIXING

11.00 a.m. Dec.30	3 months US dollars	6 months US Dollars
bid [illegible]	offer [illegible]	bid [illegible] offer [illegible]

The fixing rates are the arithmetic means rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

	Dec.30	Dec.23		Dec.30	Dec.23
Bills on offer	[illegible]	[illegible]	Top accepted rate of discount	[illegible]	[illegible]
Total of applications	[illegible]	[illegible]	Average rate of discount	[illegible]	[illegible]
Total allocated	[illegible]	[illegible]	Average yield	[illegible]	[illegible]
Minimum accepted bid	[illegible]	[illegible]	Amount on offer at next tender	£100m	£100m
Allotment at minimum level	[illegible]	[illegible]			

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

FT-ACTUARIES WORLD INDICES

Jointly compiled by The Financial Times Limited, Goldman, Sachs & Co., and County NatWest/Wood Mackenzie in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of stocks per grouping)	FRIDAY DECEMBER 30 1988: US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY DECEMBER 29 1988: US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX: 1988 High	1988 Low	Year ago (approx)
Australia (90)	144.49	-0.2	118.42	112.58	4.76	144.81	119.94	112.69	152.31	91.16	104.73
Austria (18)	95.94	+0.6	78.63	88.63	2.78	95.41	79.02	88.63	100.00	83.72	100.74
Belgium (63)	135.10	+0.7	110.72	124.44	4.95	134.20	111.16	124.44	139.89	99.14	103.15
Canada (125)	125.55	+0.3	102.89	108.50	3.35	125.14	103.64	108.06	128.91	107.06	110.44
Denmark (39)	156.66	+1.1	128.39	146.17	2.07	154.95	128.33	145.62	159.19	111.42	115.47
Finland (26)	130.87	+0.4	107.26	114.33	1.47	130.30	107.92	114.32	139.83	106.78	-
France (130)	115.04	+1.5	94.28	109.31	2.98	113.29	93.83	108.40	115.04	72.77	86.10
West Germany (102)	87.96	+0.8	72.08	81.12	2.33	87.27	72.28	81.12	88.54	67.78	77.29
Hong Kong (46)	111.80	+0.2	91.63	112.07	4.62	111.58	92.42	111.84	111.86	84.90	89.04
Ireland (18)	131.78	+1.2	108.00	123.42	4.08	130.17	107.82	122.73	144.25	104.60	104.71
Italy (98)	85.13	+0.5	69.77	83.03	2.44	84.67	70.13	83.22	86.73	62.99	77.73
Japan (456)	191.50	+0.6	156.95	151.31	0.50	190.28	157.60	151.31	191.50	133.61	141.39
Malaysia (36)	143.50	-0.2	117.61	149.71	2.84	143.75	119.07	150.18	154.17	107.83	111.68
Mexico (13)	161.84	-0.1	132.63	404.76	1.26	162.06	134.23	405.23	182.24	90.07	105.48
Netherland (38)	112.41	+0.7	92.12	102.74	4.80	111.57	92.41	102.74	112.41	95.23	100.30
New Zealand (25)	67.60	+0.3	55.40	56.98	6.93	67.37	55.80	56.88	84.05	63.32	76.17
Norway (25)	138.93	-0.8	113.86	123.80	2.34	140.00	115.96	125.23	140.03	98.55	101.75
Singapore (26)	125.10	-0.6	102.53	112.07	2.42	125.90	104.27	112.84	135.89	97.99	97.32
South Africa (60)	116.85	+0.5	95.76	98.24	4.70	116.29	96.53	97.98	139.07	98.26	133.52
Spain (42)	148.39	+1.7	121.61	127.37	3.21	145.87	120.82	126.64	164.47	130.73	132.61
Sweden (35)	144.60	+0.0	118.51	131.12	2.18	144.66	119.82	131.81	144.97	96.92	99.11
Switzerland (57)	78.08	+0.8	63.99	72.73	2.33	77.48	64.18	72.73	86.75	74.13	83.48
United Kingdom (315)	135.31	+0.6	110.90	110.90	4.86	134.52	111.42	111.42	141.51	120.66	132.53
USA (572)	113.18	-0.5	92.76	113.18	3.67	113.77	94.23	113.77	115.55	99.19	100.53
Europe (1006)	114.59	+0.8	93.91	100.46	3.74	113.69	94.16	100.56	116.61	97.01	104.53
Pacific Basin (679)	186.33	+0.6	152.71	148.03	0.72	185.22	153.41	148.04	186.33	130.81	137.93
Euro-Pacific (1685)	157.61	+0.7	129.17	129.19	1.61	156.58	129.69	129.23	158.08	120.36	124.62
North America (697)	113.84	-0.5	93.30	112.92	3.65	114.37	94.73	113.44	116.07	99.78	101.06
Europe Ex. UK (691)	101.40	+0.9	83.11	94.22	2.90	100.45	83.20	94.06	101.40	80.27	87.16
Pacific Ex. Japan (223)	124.57	-0.1	102.09	106.69	4.65	124.68	103.27	106.72	128.27	87.51	96.25
World Ex. US (1883)	156.09	+0.6	127.92	128.32	1.68	155.09	128.46	128.34	156.39	120.26	124.22
World Ex. UK (2140)	140.06	+0.3	114.78	124.49	2.03	139.68	115.69	124.66	140.06	111.77	113.33
World Ex. So. Af. (2395)	139.76	+0.3	114.54	123.35	2.26	139.34	115.41	123.56	139.76	113.26	114.92
World Ex. Japan (1999)	114.64	+0.0	93.95	108.34	3.73	114.62	94.93	108.67	115.54	100.00	102.42
The World Index (2455)	139.62	+0.3	114.42	123.18	2.27	139.20	115.30	123.39	139.62	113.37	115.04

Base values: Dec 31, 1986 = 100; Finland: Dec 31, 1987 = 115.037 (US $ Index), 90.791 (Pound Sterling) and 94.94 (Local).

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Markets closed December 30: Austria, Belgium, West Germany, Japan, Netherlands and Switzerland.

Latest prices were unavailable for this edition.

EUROPEAN OPTIONS EXCHANGE

[illegible]

TOTAL VOLUME IN CONTRACTS : 44,874

A=Ask B=Bid C=Call P=Put

LONDON RECENT ISSUES

EQUITIES

[illegible]

FIXED INTEREST STOCKS

[illegible]

RIGHTS OFFERS

[illegible]

BASE LENDING RATES

	%		%		%
ABN Bank	13	City Merchants Bank	13	NatWestminster	13
Adam & Company	13	Clydesdale Bank	13	Northern Bank Ltd	13
AAB - Allied Arab Bk	13	Comm. Bk. N. East	13	Norwich Gen. Trust	13
Allied Irish Bank	13	Co-operative Bank	*13	PRIVATbanken Limited	13
● Henry Ansbacher	13	Coutts & Co	13	Provincial Bank PLC	14
ANZ Banking Group	13	Cyprus Popular Bk	13	R. Raphael & Sons	13
Associates Cap Corp	12	Dunbar Bank PLC	13	Roxburghe G'rantee	13½
Authority Bank	13	Duncan Lawrie	13	Royal Bk of Scotland	13
● B & C Merchant Bank	13	Equatorial Bank plc	13	Royal Trust Bank	13
Bank of Baroda	13	Exeter Trust Ltd	13½	● Smith & Williamson Secs.	13
Banco Bilbao Vizcaya	13	Financial & Gen. Bank	13	Standard Chartered	13
Bank Hapoalim	13	First National Bank Plc.	14	TSB	13
Bank Leumi (UK)	13	● Robert Fleming & Co.	13	United Bk of Kuwait	13
Bank Credit & Comm	13	Robert Fraser & Ptns.	13½	United Mizrahi Bank	13
Bank of Cyprus	13	Girobank	13	Unity Trust Bank Plc	13
Bank of Ireland	13	● Guinness Mahon	13	Western Trust	13
Bank of India	13	HFC Bank plc	13	Westpac Bank Corp.	13
Bank of Scotland	13	● Hambros Bank	13	Whiteaway Laidlaw	13½
Banque Belge Ltd	13	Heritable & Gen Inv Bank	13	Yorkshire Bank	13
Barclays Bank	13	● Hill Samuel	§13		
Benchmark Bank PLC	13	C. Hoare & Co.	13		
Berliner Bank AG	13	Hongkong & Shangh	13		
Brit. Bk of Mid East	13	● Leopold Joseph & Sons	13		
● Brown Shipley	13	Lloyds Bank	13		
Business Mtge Tst	13½	McDonnell Douglas Bk	13		
CL Bank Nederland	13	Meghraj Bank Ltd	13		
Central Capital	13	Midland Bank	13		
● Charterhouse Bank	13	Mortgage Express Ltd.	§13.95		
Citibank NA	13	Mount Banking Corp.	13		
		Nat Bk. of Kuwait	13		

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WORLD STOCK MARKETS

INDICES

NEW YORK — DOW JONES

	Dec 30	Dec 29	Dec 28	Dec 27	1988 High	1988 Low	Since compilation High	Since compilation Low
♦Industrials	2168.57	2162.68	2166.43	2162.68	2183.50 (21/10)	1879.14 (20/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	88.59	88.53	88.78	88.57	92.25 (3/8)	86.12 (4/1)	-	-
Transport	969.04	973.61	965.62	964.57	973.61 (29/12)	737.57 (21/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	186.28	186.82	185.93	185.75	190.02 (29/1)	167.26 (20/4)	227.83 (22/1/87)	10.50 (8/4/32)

♦Day's High 2193.75 (2193.04) Low 2162.50 (2165.19)

STANDARD AND POOR'S	Dec 30	Dec 29	Dec 28	Dec 27	1988 High	1988 Low	Since compilation High	Since compilation Low
Composite ‡	277.72	279.40	277.08	276.83	282.88 (20/10)	242.63 (20/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrial	321.26	323.38	320.49	320.18	327.53 (24/10)	277.86 (20/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financial	24.49	24.63	24.49	24.46	26.42 (20/10)	21.51 (8/1)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	156.26	156.90	155.81	155.58	159.02 (20/10)	136.72 (20/1)	187.99 (25/8/87)	4.46 (25/4/42)
Amex Mkt. Value	306.01	303.69	302.14	301.44	309.33 (7/6)	262.76 (12/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	382.38	379.05	376.76	376.44	394.77 (18/7)	332.97 (12/1)	455.28 (26/8/87)	54.87 (31/10/72)

	Dec 23	Dec 16	Dec 9	year ago (approx.)
Dow Industrial Div. Yield	3.70	3.73	3.71	3.46
	Dec 28	Dec 21	Dec 14	year ago (approx.)
S & P Industrial div. yield	3.20	3.19	3.22	3.31
S & P Indl. P/E ratio	12.86	12.86	12.73	16.39

TRADING ACTIVITY — ‡ Volume

Millions	Dec 30	Dec 29	Dec 28
New York	127,210	131,290	111,949
Amex	16,240	12,630	9,730

NEW YORK	Dec 30	Dec 29	Dec 28
Issues Traded	1,994	1,981	1,954
Rises	934	981	780
Falls	585	476	592
Unchanged	475	524	582

	Jan. 2	Dec. 30	Dec. 29	Dec. 28	1988 High	1988 Low
AUSTRALIA						
All Ordinaries (1/1/80)	(c)	1487.4	1496.4	1486.4	1657.8 (9/8)	1270.7 (10/2)
All Mining (1/1/80)	(c)	676.8	678.4	680.5	847.8 (9/8)	532.4 (10/2)
AUSTRIA						
Credit Aktien (30/12/84)	219.5	(c)	219.3	218.9	225.48 (4/11)	163.98 (11/2)
BELGIUM						
Brussels SE (1/1/84)	(c)	(c)	5565.50	5534.40	5565.50 (29/12)	3608.35 (4/1)
DENMARK						
Copenhagen SE (3/1/83)	(u)	271.81	269.09	265.87	269.09 (29/12)	180.68 (4/1)
FINLAND						
Unitas General (1975)	(u)	732.3	729.9	726.8	772.1 (8/8)	530.6 (15/1)
FRANCE						
CAC General (31/12/82)	(c)	415.6	412.3	412.7	415.6 (30/12)	251.3 (29/1)
Ind. Tendance (31/12/87)	(c)	160.1	158.7	158.4	160.1 (30/12)	89.7 (29/1)
GERMANY						
FAZ Aktien (31/12/58)	548.23	(c)	549.86	550.20	563.59 (27/12)	396.40 (29/1)
Commerzbank (1/12/53)	1647.2	(c)	1651.9	1654.0	1664.3 (27/12)	1207.9 (29/1)
DAX (30/12/87)	1335.01	(c)	1327.87	1333.74	1340.41 (27/12)	931.18 (28/1)
HONG KONG						
Hang Seng Bank (31/7/64)	(c)	2687.44	2592.40	2596.44	2772.53 (12/7)	2223.56 (8/2)
ITALY						
Banca Com. Ital. (1972)	(u)	589.72	590.37	590.80	593.43 (9/11)	423.91 (9/2)
JAPAN**						
Nikkei (16/5/49)	(c)	(c)	(c)	30159.00	30159.00 (28/12)	21217.04 (4/1)
Tokyo SE (Topix) (4/1/68)	(c)	(c)	(c)	2357.03	2357.03 (28/12)	1690.44 (4/1)
NETHERLANDS						
ANP-CBS General (1970)	289.3	(c)	287.2	287.9	289.3 (2/1)	205.7 (4/1)
ANP-CBS Industrial (1970)	252.8	(c)	251.5	251.6	252.8 (2/1)	157.9 (11/1)
NORWAY						
Oslo SE (4/1/83)	467.17	467.75	466.14	465.92	467.75 (30/12)	327.78 (28/1)
SINGAPORE						
Straits Times Ind. (30/12/66)	(c)	1038.62	1044.20	1042.77	1177.87 (8/8)	833.50 (4/1)
SOUTH AFRICA						
JSE Gold (28/9/78)	(c)	1298.0	1302.0	1315.0	1451.0 (7/7)	1154.0 (4/5)
JSE Industrial (28/9/78)	(c)	1942.0	1934.0	1929.0	1942.0 (30/12)	1367.0 (12/2)
SPAIN ♦						
Madrid SE (30/12/85)	276.05	274.43	272.96	273.07	301.63 (15/6)	225.50 (4/1)
SWEDEN						
Jacobson & P. (31/12/56)	(u)	3443.8	3442.3	3432.1	3443.8 (30/12)	2148.5 (4/1)
SWITZERLAND						
Swiss Bank Ind. (31/12/58)	(c)	(c)	603.8	603.1	603.8 (29/12)	466.6 (15/1)
WORLD						
M.S. Capital Intl. (1/1/70)	(u)	494.4	493.6	491.6	493.8 (5/12)	401.0 (21/1)

**Saturday Dec. 31: Japan Nikkei (c) TSE (c) ♦ Subject to official recalculation.

Base values of all indices are 100 except Brussels SE and DAX – 1,000 JSE Gold – 255.7 JSE Industrials – 264.3 and Australia, All Ordinary and Mining – 500. (c) Closed. (u) Unavailable.

CANADA

NEW YORK ACTIVE STOCKS

The Business Column

How bad bidders get bitten

Companies which make ill-jndged acquisitions are themselves likely to wind up on the wrong end of a hostile takeover bid. You don't need a PhD to work that out: just ask the likes of Gateway and Storehouse in the UK, or Goodyear in the US. Bnt recent work by economists at the Securities and Exchange Commission in Washington suggests that the penalties for making a bad bid are surprisingly consistent — and painful.

The study* is based on 412 acquisitions made by a sample of over 1,100 important US companies between 1982 and 1986. The companies are divided into two groups — those which themselves subsequently became takeover targets, and those which did not (non-target firms). The next step is to see what happened to the share prices of these companies at the critical moment when they made a takeover bid.

The message is that, on average, the share price of companies which subsequently became takeover targets declined significantly whan they announced sizeable acquisitions of their own. By contrast, the price of non-target firms on average rose significantly when they announced their acquisitions. Overall, the probability of becoming a takeover target in the US over the past six years has been closely related to the way the company's shares reacted when it announced a takeover of its own. The more negatively the market reacted to the news, the more likely a subsequent bid for the company in question.

The bad bidder theory is only a partial explanation for the recent wave of hostile takeovers, since quite a number of the target companies did not make an acquisition in the period preceding the moment when they wera jumped on. And not all bad bidders get their come-uppance in this way, maybe as a result of their ownership structure, or because of management changes. Still, the evidence does point to several conclusions, some of which are quite comforting for supporters of the status quo and one which is not.

To start with, the analysis helps to explain why hostile bidders are willing to pay big premiums: in such cases, the price represents a recovery of equity values which have been lost by the target through its bad acquisition strategy. Managers who make bad bids and thereby diminish the value of their equity, get booted out, and their company's assets are split up and sold to more efficient owners. Almost everyone is better off as a result.

Failed acquisition strategies

The suggestion is that the rise of hostile takeovers in the past few years has its genesis in the failed acquisition strategies of many large corporations in the previous two decades. The aggregate data shows that the returns to shareholders in acquiring companies have been approximately zero. But this hides the fact that the market has been quick to discriminate between good and bad bids.

The trouble is that there is no particular reason to think that today's bidders are collectively any smarter than their predecessors. If that is the case, then one takeover wave will create enother — and assets will tend to accumulate in the hands of managers who, for one reason or another, are not themselves susceptible to takeover. They will be the only ones who can get away with making bad bids.

Size alone is no great defence these days. But especially in the UK and the rest of Europe, it is easy to think of companies which are off limits to predators, either because of their place in the national economy or of their ownership structure. Rather than looking for ways of limiting takeovers, policymakers should perhaps be doing exactly the opposite, and making sure that bad bidders get what is coming to them — whether or not they are national jewels.

Richard Lambert

* *Do bad bidders become good targets? by Mark Mitchell and Kenneth Lehn. Securities and Exchange Commission, Washington.*

THE INTERVIEW

Uncompromising man consumed with a mission

Robin Pauley talks to Dr Mahathir Mohamad, Prime Minister of Malaysia

Since independence from Britain 31 years ago Malaysia's polltical leeders hava been obsessed with — and terrified of — the country's potentially axplosive racial mix. Dr Mahathir Mohamad, Prime Minister since 1981, is no exception.

He is an intensely serious man who does not laugh easily and who seems a deal less relaxed in his own office in Kuala Lumpur than when he is abroad. Dr Mahathir is consumed with a mission: to improve tha lot of Malaysia and, most particularly, the poorer Bumiputras (Malays).

He is acutely conscious of how racial unrest can destroy tha most idyllic of small countries, Sri Lanka and Fiji being the two most notable recent examples. Malaysia has 16m people of whom 55 per cent, including most of the country'a poorest and most disadvantaged, are Malay, a third are Chinese, typically prominent in commerce and business, and 6 per cent are Indian, who show up heavily in the civil service and professions. There is also a sprinkling of other races, including Aborigines.

"We have to be very, very careful about how we handle racial issues. The Malays are different from the Chinese and Indians because of race bnt also because of economic development, religious affiliation, location. We cannot change or eliminate the racial differences. We accept that because they do not intarmarry. The only thing we can do is eliminate economic differences. That is what we are trying to do."

This approach, says Dr Mahathir, lies behind not only the policies of positive economic discrimination in favour of Malays but also the string of controversial actions ha has taken during the past 18 months. Added together, these have produced a picture of increasingly repressive anthoritarianism, widely condemned at home and abroad. It has deflected attention from the remarkably strong recovery under way in an economy which has always been open.

Nobody doubts that Malaysia remains a broadly democratic country with free and fair multi-party elections in which one person gets one vote. What is increasingly debated is what Dr Mahathir's approach is doing to the quality of democracy and to the stability of some of the traditional pillars which prop up a democracy.

The constitution, the Official Secrets Act, the Police Act, and the Internal Security Act have all been amended in ways which strengthen the powers of the executive and reduce the freedom of action of the press, the judiciary, political parties and, crucially, individuals.

Newspapers have been closed down for several months, a bruising row with judges and lawyers has irreparably damaged the independence of the judiciary and, perhaps most important, Malaysia has become a high-profile jailer of political prisoners, with some opposition party leaders now into their second year of detention without trial.

Dr Mahathir's repeated explanation is that he, his country and its history are hopelessly misunderstood. "What was done before was even less democratic than now. There ware more people arrested under the first, second and third prime ministers than during my tenure. The first thing I did on becoming Prime Minister was to release some 1,000 people who had literally been forgotten. I do not like that idea because I was myself very nearly arrested. All I did was criticise the Prime Minister and immediately I was thrown out of my party and threatened with arrest. That was the kind of atmosphere we were living in but this has been conveniently forgotten. The first Prime Minister (Tunku Abdul Rahman), in particular, was very, very intolerant."

PERSONAL FILE

- **1925:** Born in Alor Star, Kedah Province.
- **1953:** Qualified in madicina, University of Malaya.
- **1954-73:** Governmant medical officer and private practice as GP.
- **1973:** Appointed Senator
- **1974:** Minister of Education
- **1976:** Deputy Prima Minister
- **1978:** Minister of Trade and Industry
- **1981-86:** Prime Minister and Minister of Defence
- **1986- :** Prima Minister, Minister of Home Affairs, Minister of Justice.

He continues: "I remember distinctly because I lived all through this. The first thing I decided was to release detainees and that I would not arrest. But then when people step out of line and try to cause racial tension I am not going to be responsible for allowing what happens in some other countries — racial strife, civil war, endless killings and bombings."

The difficulty is to know how dangerous the racial situation really is. In spite of the lack of intermarriage there can be few places in the world where such different racial gronps appear so thoroughly and harmoniously integrated. Could not the race issue be more a useful political weapon than an everyday danger?

"Well, in 1969, 200 or more people died (in race riots). I think that if you asked them if they could talk now they would say it is a very real thing. That was when it should not have happened. That generation had, under British rule, been living together, going to school together into English schools. Now, because of race consciousness, the Chinese go to Chinese schools, the Malays to Malay schools, the Indians to Indian schools. They never meet. Now the chances of racial upheaval, of race relations becoming bad, is much greater. So, while it is calm and nice now, it needs but a little something and the tension will mount."

That happened in October 1987 when Chinese agitation started over educational issues. "It created tremendous tension and almost resulted in racial clashes. We had to prevent that. Wa know that people were already getting ready weapons and all that, and wanting to come to the city to riot." Prevention inclnded a ban on demonstrations and marches, together with tha arrest and detention under the Internal Security Act of around 120 people inclnding Chinese political leaders. Over the months some were released but more than 20 detained and not tried. They were joined by the victims of a new sweep last month.

Dr Mahathir feels it should be obvious why such measures are necessary but agrees that he has not been good at explaining the difficulties internationally — that his public relations are "lousy." But he blames the press, too.

He clearly sees the media as a key villain in his problems. These include a badly split party which he admits will substantially reduce his majority in the next general election. "It (the media) could be a wonderful force for a better world. We have just become independent and if we achieve anything it should be recognised. To be able to manage a multi-racial country without too many riots and killings and murder is an achievement which has never been recognised. The fact is that we have been able to take over from our colonial masters and improve tremendously on what they had done. We had to build this country, improve this economy, stabilise the politics. Why not recognise these things. We don't ask for millions of dollars of aid every year. All we ask is give us a break. But we see none of this. You have a chance to help but you have other interests perhaps and you do not think that is your role . . ."

This criticism of institutions which do not share exactly his interpretation of how things should be done extends to the legal profession, too. A remarkable display of mud-slinging during which the King has become involved, a Lord President has been sacked, and some lawyers are refusing to appear before certain judges, shows no sign of ending. Dr Mahathir's view of the division between legislature and executive is clear: "If we find the courts interpreting (Acts) differently from what we intended we will change the law."

This view resulted in a charge of contempt brought by the opposition. "The courts decided there was no contempt but added that the Prime Minister was confused. That is like saying he is nuts. The only person who can say that is an expert. I resent that. I cannot take that judge and charge him with libel. So what do I do?"

What Dr Mahathir does, always, on occasions like this is to attack from his place in parliament. "I have to say my piece." He rarely deems it judicious to back off for fear of making matters worse. He is a consummate politician, well experienced in battle — and Malaysian politics have been a real brawl in recent years. But he is also exceptionally sensitive to criticism which he seems to regard as almost lese-majesty. He cannot let it pass.

What makes a medical doctor get involved in all this in the first place? "It was the politician who became the doctor. I was a politician first and became a doctor because I needed status and needed to have some recognition. I found later on that the training — being very methodical — serves me very well in politics."

He passionately wants Malaysia to succeed and to be accepted. Its election to a UN Security Council rotating seat and the decision of the Commonwealth (which he contemplated quitting a couple of years ago) to hold next year's heads of government meeting in Kuala Lumpur please him enormously, although both will surely result in more questioning about repression and untried prisoners. But there are other forms of success he can do without.

"We are not planning to be an Asean (Association of South-east Asian Nations) or regional leader. We are not even planning to become a Newly Industrialising Country (NIC) because we do not see much profit in that. All that we can see is that there will be a lot of pressure on us to revalue our currency, to stop exporting. You can call us a developing country forever. We don't mind so long as we are OK."

'We cannot eliminate the racial differences. All we can do is eliminate economic differences'

Husband between bank and wife

A.H.HERMANN

THE JUDGE found that the marriage was a happy one until the *disastrous* and *disgraceful* collapse of the family business in 1983. This shattered the respect, trust and affection which the wife had developed for her husband since they married, by arrangement, donkey's years ago, in Egypt. In 1949, they moved to England, bought a house with the wife's dowry, and set up a business.

It was a marriage in which the responsibilities of the two partners were strictly divided: the husband looked after the business and the wife after the household. Neither interfered in the sphere of the other.

That did not, however, prevent the husband from making the wife a director and secretary of ths family company. They both thonght that the resulting duties of the wife were purely formal. She would sign minutes of meetings even if these never took place, as well as company accounts, without understanding the significance of these documents and even less their contents.

The wife was also kept in complete ignorance of a series of massive frauds which tha husband perpetrated between 1979 and 1983 on the bank at which he banked. This accelerated the collapse of the business, so that by June 1983 the company owed the bank some £888,000.

During this period the bank required and obtained from the couple personal guarantees totalling about £1m to back up the heavy debt incurred by the company. In every case the bank agreed the guarantees with the husband who signed it at the bank's premises and took the document home to obtain his wife's signature. It was subsequently "witnessed" by the husband's telephonist in his office. There was no doubt in the minds of the judges who later considered this matter that, in obtaining his wife's signature, the husband was acting as the bank's agent and that if he used undue influence or deceit the bank would suffer the consequences.

This possibility worried the bank's lawyers when the bank wanted to have the guarantee reinforced by a charge on the wife's house which was occupied by the family. They arranged for the wife to sign the charge at the bank's office and had an independent solicitor in attendance to explain to her what she undertook by signing the charge.

While the solicitor was explaining the charge to the wife, the husband burst shouting into the room, reduced the wife to tears and made the solicitor agree to her signing the charge without further ado.

After the company's collapse in 1983, the bank sued and joined the coupla as defendants. The wife contested the proceedings and challenged the validity of the guarantees and of the charge, on the ground that these had been obtained by "actual undue influence" of her husband.

However, the defence of actual undna inflnence prevails only if it was exercised to the manifest disadvantage of the influenced person, not compensated by other advantages. Sir Joseph Cantley*, sitting as a High Court judge, found that this condition was not satisfied. In his view, it was to the wife's advantage that the company should survive and to continue to provide the family with a *decent living, that is* until it finally collapsed. Remarkably, in a judgment given by Lord Justice Slade, all three appeal judges agreed with the trial judge.

Were a few years in relative comfort — hardly free from anxiety — a compensation for the final bankruptcy and loss of house and home? How could the judges know what would have happened if the business had been wound up in good time, withont running into unbearable debts? For all we know, the husband could have been obliged to give up his highly questionable enterprise and take up some honest employment. Or the wife could have taken some job and supported the family more easily as long as she had a roof over her head.

The story did not end as badly as it would seem. The security of the bank included a pledge over goods of the company. These were held to its order in a warehouse. By ingenious fraud the husband removed large quantities of goods from the warehouse, their valne amounting to £873,308. The judge held that the bank was in breach of a duty to the wife to *take reasonable* care to pressrve those goods. The debt of £888,051, was reduced by that amount, leaving only a balance of £15,257 — thongh one can assume that the legal costs of the wife's appeal were a multiple of this remaining debt and probably enough to consume the house.

Other wives in similar situations are unlikely to benefit from a carelessness of the bank. The decision creates a precedent, dangerous to wives who allow themselves to be bullied into submissiveness. One can only hopo that the Law Lords — or parliament, perhaps — will find a better solution.

* *Bank of Credit and Commerce International v Aboody, FTLR 8 Nov 1988.*